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Notes on the Translation of F.A. Hayek's "Competition as a Discovery Procedure" — **Marcellus Snow**

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What is Money? — **Frédéric Bastiat**

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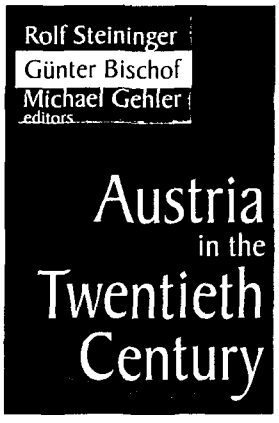
NEW IN AUSTRIAN STUDIES

AUSTRIA IN THE TWENTIETH CENTURY

Rolf Steininger, Günter Bischof, and Michael Gehler, editors



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LEARNING FROM THE PAST: THE CONTINUING RELEVANCE OF HAYEK, BÖHM-BAWERK, AND BASTIAT

In the original mission statement of the *Review of Austrian Economics*, the predecessor of the *Quarterly Journal of Austrian Economics*, the founding editor, Murray Rothbard, wrote that one of its prime objectives was "to promote the development and extension of Austrian economics." Rothbard indicated that one important means of achieving this objective was to publish articles that "explore its traditions and its practitioners." Rothbard's belief that one of the avenues of development of contemporary Austrian economics involved learning from neglected contributions from past writers stemmed from his deeply held and oft-expressed conviction that no science–and certainly not a social science like economics whose practitioners invariably come to the science with ideological predispositions–develops smoothly and progressively. This "Whig" view, rejected by Rothbard but upheld by a broad consensus of mainstream economists, maintains that economic science progresses without interruption or detour in its task of incrementally building up an ever more complete and valid structure of knowledge about the economy and economic relationships. It thereby implies that all the worthwhile contributions of the past have already been incorporated into the latest journal articles, monographs, and textbooks and that it is a waste of time to study works more than five or 10 years old. Indeed this is precisely the reason why all the top graduate economics programs have done away with courses in the history of economic thought and why syllabi for theory courses comprise only the latest journal articles.

However, if one accepts Rothbard's view that economics has evolved through a series of upheavals and revolutions, some of which have represented a setback for the science, then it is probable that much economic truth discovered or expressed with greater clarity in the past has been lost and awaits rediscovery. Moreover, the careful study of contributions to past economic controversies involving Austrians, such as the socialist calculation debate of the 1930s, often yields insights and implications that have not been fully appreciated or developed by the participants themselves. These can spur

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a substantial revision or extension of the contemporary Austrian theoretical edifice. For these reasons, it has been the policy of the editors of the *Quarterly Journal of Austrian Economics* to publish occasional articles by the past masters and forerunners of Austrian economics that either have never been published, have appeared only in foreign language publications, or have been published previously in English in rare and obscure volumes now long out of print. Thus, recent issues of the journal have featured a 1944 manuscript on monopoly prices from Mises's unpublished papers as well as an English translation of an article by Mises on mathematical economics and socialist calculation that first appeared in 1938 in a French journal. We also published a long memo written in 1952, from Murray Rothbard's unpublished papers, criticizing the famous article by Blum and Kalven on "The Uneasy Case for Progressive Taxation."

We have decided to devote the bulk of this issue of the journal to articles by F.A. Hayek, Eugen von Böhm-Bawerk, and Frédéric Bastiat. The articles by Hayek and Böhm-Bawerk were very recently translated from German by Marcellus Snow and George Reisman, respectively, and feature introductions by their translators. The article by Bastiat originally appeared in English in 1877 in a long-forgotten volume of Bastiat's essays and was rediscovered, fittingly enough, by our own book review editor, Mark Thornton, who also penned an introductory article for the piece. While the introductions to each article provide the contextual details and evaluate the importance of these articles, a few words by way of general introduction to each article by the journal's editors does not seem inappropriate.

Readers will no doubt recognize that there already exists an English version of the article by Hayek (1978) on "Competition as a Discovery Procedure," which was first published in 1978 in a collection of Hayek's essays entitled *New Studies in Philosophy, Politics, Economics, and the History of Ideas.* In a footnote to this version, Hayek (1978, p. 179) tells us that he first presented this paper as a lecture in English to the Philadelphia Society in March of 1968 and later presented a revised version of the lecture in German at the University of Kiel in July of 1968, a version which was then published in German in the same year. The German version was then reprinted in 1969 in a collection of Hayek's essays. However, Hayek does not accurately indicate in the footnote the extent to which the German version differed from the original English version. In fact, the German version, which appears in translation here, has two additional sections—sections 2 and 7 in the new English version—that extend its length by five additional pages over the original English version. While Hayek also expressed many ideas differently in the German version, it is the added sections that are extremely important. In section 2, Hayek provides an insightful distinction between "microtheory" and "macrotheory" that derives from his critique of scientism and argues that macroeconomic generalizations "in a strict sense . . . do not have the character of scientific theories at all." He also lauds the "younger" Schumpeter for his introduction of the concept of "methodological individualism" and his critique

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of macro concepts in his "brilliant first publication" on general equilibrium theory. In contrast, he castigates the "elder" Schumpeter for "being responsible to so great an extent for the rise of macrotheory." Section 7 deals with the effects on the economy of the thoroughgoing suppression of the influence of competition throughout the entire Western world on "the one omnipresent factor of production, namely human labor." For Hayek such a policy-induced nullification of the competitive process in labor markets–or "the so-called rigidity of wage rates"–means that "the wage structure as well as the wage level has become increasingly independent of market conditions." In a strikingly original argument, Hayek maintains that wage flexibility and economic growth are positively correlated, not mainly because growth causes changes in relative wages, but primarily because such changes are the "necessary preconditions" for the adjustment of resource allocation required by growth. Hayek also proposes an ingenious, if controversial and constructivist, transitional plan for restoring relative wage flexibility via a collective agreement between employers and employees as a whole, wherein the former agree to maintain the "average real income" of employees in exchange for a one-sixth across-the-board wage cut supplemented by a year-end distribution of the increased profits realized by the employee's individual firm or industry. Since the flexibility of wage rates thus effected would create an increase in real growth and therefore in total profits beyond the extra profits realized from the initial wage cut, Hayek is confident that the guaranteed average real employee compensation will increase from one year to the next, and he conjectures that this result will eventually persuade workers to abandon the illusory benefits of trade unionism in favor of a regime of free and flexible labor markets.

Böhm-Bawerk's "Value, Cost, and Marginal Utility" has never appeared in English in any form. It is worthy of publication because it contains one of the clearest expositions by Böhm-Bawerk, or of any other Austrian writer, of the complex relationship between marginal utility and cost. This is a topic of overriding importance, because it is the ultimate explanation of cost of production in terms of subjective values that sets the Austrian approach to price theory apart from the other modern approaches that derive from the marginalist revolution. As Ludwig von Mises (1981, p. 165) has written:

> Within the field of modern economics the Austrian School has shown its superiority to the School of Lausanne and the schools related to the latter, which favor mathematical formulations, by clarifying the causal relationship between value and cost, while at the same time eschewing the concept of function, which in our science is misleading. The Austrian School also must be credited with not having stopped at the concept of cost, but on the contrary with carrying on its investigations to the point where it is able to trace back even this concept to subjective value judgments.

In his introduction to this article, George Reisman draws some controversial inferences from Böhm-Bawerk's argument that will be sure to inspire further investigations in this area among contemporary Austrian theorists.

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Finally, the article "What Is Money?" by Bastiat was originally published in French in 1849 as "Maudit Argent"—literally translated "Accursed Money." It is an important contribution to the proto-Austrian *oeuvre* because it represents the only extended treatment of monetary theory by Bastiat, one of the most widely read economists in the Continental subjective value tradition that inspired Carl Menger's reconstruction of economic theory. While the article is entertainingly and compellingly written and displays its author's acknowledged mastery of economic rhetoric, it is by no means without theoretical substance. In particular, Bastiat deftly employs the supply-and-demand theory of the value of money to demolish long-standing popular fallacies that confuse money with wealth and misidentify the plenitude of money as a cause of economic prosperity. Bastiat also denies the contention of modern proponents of the quantity theory of money that an increase in the supply of fiat or "false" money brings about a long-run situation as if "the equilibrium of values should instantly and simultaneously take place in all things and in every part of the country." Rather, Bastiat perceptively recognizes, as Cantillon before him did, that an addition to the quantity of money causes a rise in prices that is not "instantaneous and equal for all things" and that this uneven monetary depreciation process spans "years," impoverishing some individuals and groups while benefiting others. Finally, Bastiat does not fall victim to the illusion that afflicts most modern monetary theorists of all stripes, namely, that money of "stable" purchasing power is somehow ideal. Instead, as Bastiat notes, an ideal market-supplied money such as gold naturally "undergoes the fluctuations of all other human productions."

We hope that you will enjoy and profit from reading these articles as much as we did.

JOSEPH T. SALERNO
JEFFREY M. HERBENER

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NOTES ON THE TRANSLATION OF F.A. HAYEK'S "COMPETITION AS A DISCOVERY PROCEDURE"

MARCELLUS SNOW

My first sabbatical leave from the Department of Economics at the University of Hawaii at Manoa came during the 1980-81 academic year. I was fortunate enough to spend it as a Fulbright research scholar at the Universität Bonn through the kind invitation of Professor Carl Christian von Weizsäcker, then affiliated with the university's Institut für Gesellschafts- und Wirtschaftswissenschaften.

My area of concentration was the deregulation, liberalization, and privatization of the telecommunications industry. I had first pursued this interest as a financial and political analyst for the Communications Satellite Corporation; it later flourished into a dissertation topic at the University of California-Berkeley in 1974. That, in turn, was published two years later as the first book-length treatment of the economics of satellite communications.

I began my sabbatical year subscribing to the prevailing neoclassical school of economic thought, which emphasizes efficiency, scarcity, constrained optimization, and related notions. While at Bonn, however, I came across a paper entitled "Der Wettbewerb als Entdeckungsverfahren" ["Competition as a Discovery Procedure"]. Its author, Professor Friedrich A. von Hayek, had presented it in 1968 as part of a lecture series sponsored by the Institut für Weltwirtschaft an der Universität Kiel. The paper, published as No. 56 in the series Kieler Vorträge, encapsulates many of its author's most novel and important theoretical conclusions from the viewpoint of the Austrian School of economics.

From that point on, I gradually developed an appreciation of the Austrian viewpoint. Like the more widespread neoclassical view of competitive markets,

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it emphasized their merits as efficiency maximizers. In addition, however, Austrian economics stressed the process of competition itself as an information-rich, decentralized, nonbureaucratic, and autonomous "discovery procedure."

Within a decade of their publication, Professor Hayek's views had become presciently germane to arguments favoring broad, ambitious reforms of telecommunications policy in the major industrialized countries. Such arguments typically advocated the introduction of competition into the provision of services hitherto offered only by the "post, telephone, and telegraph" (PTT) ministries of those countries, which in most instances jealously guarded their long-entrenched monopoly prerogatives.

As my research focus expanded during the 1980s and 1990s to accommodate increasingly diverse and complex developments in telecommunications, I found myself citing Professor Hayek's lecture quite routinely. In doing so I became aware that Austrian theory and practice often complement and extend the more familiar neoclassical paradigm without replacing or contradicting it.

Although bits and pieces of "Competition as a Discovery Procedure" began to appear in English as early as the 1970s, I discovered that, by the time I assumed emeritus status in 1998, no full translation of the original 1968 Kiel version was yet extant. I knew that translating such a document into English would make it much more widely accessible. It was this conviction, along with the flexible workload of a retired academic, that resulted in the present translation.

I am indebted to the Institut für Weltwirtschaft an der Universität Kiel for permission to use Professor Hayek's lecture. Readers interested in other facets of Professor Hayek's life and work might wish to consult the influential *The Road to Serfdom* (1944) with respect to his political views, or Alan Ebenstein's excellent *Friedrich Hayek: A Biography* (2001).

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COMPETITION AS A DISCOVERY PROCEDURE

F.A. HAYEK

TRANSLATED BY MARCELLUS S. SNOW

I.

It would not be easy to defend macroeconomists against the charge that for 40 or 50 years they have investigated competition primarily under assumptions which, if they were actually true, would make competition completely useless and uninteresting. If anyone actually knew everything that economic theory designated as "data," competition would indeed be a highly wasteful method of securing adjustment to these facts. Hence it is also not surprising that some authors have concluded that we can either completely renounce the market, or that its outcomes are to be considered at most a first step toward creating a social product that we can then manipulate, correct, or redistribute in any way we please. Others, who apparently have taken their notion of competition exclusively from modern textbooks, have concluded that such competition does not exist at all.

By contrast, it is useful to recall that *wherever* we make use of competition, this can only be justified by our *not* knowing the essential circumstances that determine the behavior of the competitors. In sporting events, examinations, the awarding of government contracts, or the bestowal of prizes for poems, not to mention science, it would be patently absurd to sponsor a contest if we knew in advance who the winner would be. Therefore, as the title of this lecture suggests, I wish now to consider competition systematically as a procedure for discovering facts which, if the procedure did not exist, would remain unknown or at least would not be used.

Marcellus S. Snow is professor emeritus at the University of Hawaii at Manoa; snow@hawaii.edu. This is a translation from German of F.A. Hayek's "Der Wettbewerb als Entdeckungsverfahren," a 1968 lecture sponsored by the Institut für Weltwirtschaft at the University of Kiel. It was published as No. 56 in the series Kieler Vorträge.

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It might at first appear so obvious that competition always involves such a discovery procedure that this is hardly worth emphasizing. When this is explicitly underscored, however, conclusions are immediately obtained that are in no way so obvious. The first is that competition is important *only* because and insofar as its outcomes are unpredictable and on the whole different from those that anyone would have been able to consciously strive for; and that its salutary effects must manifest themselves by frustrating certain intentions and disappointing certain expectations.

The second conclusion, closely associated with the first, is methodological in nature. It is of particular interest in that it has reference to the principal reason why, during the last 20 or 30 years, microeconomic theory—the analysis of the fine details of the economy's structure which alone can teach us to understand the role of competition—has lost so much of its reputation, and indeed as a result appears not at all to be understood anymore by those calling themselves economic theorists. For this reason I would like to begin here with a few words about the methodological particularity of every theory of competition that makes the conclusions drawn from it appear suspicious to all those who habitually decide, on the basis of an excessively simplified criterion, what they are prepared to recognize as scientific.

The only reason we use competition at all has as its necessary consequence the fact that the validity of the theory of competition can never be empirically verified *for those cases in which it is of interest.* It is of course possible to verify the theory on preconceived theoretical models; and in principle we could also conceivably verify the theory in artificially created situations in which all the facts that competition is to discover are known to the observer in advance. In such a situation, however, the outcome of the experiment would be of little interest, and it would probably not be worth the cost of conducting it. When, however, we do not know in advance the facts we wish to discover with the help of competition, we are also unable to determine how effectively competition leads to the discovery of all the relevant circumstances that could have been discovered. All that can be empirically verified is that societies making use of competition for this purpose realize this outcome to a greater extent than do others—a question which, it seems to me, the history of civilization answers emphatically in the affirmative.

The curious fact that the merits of competition cannot be empirically verified in precisely those cases in which it is of interest is also shared by the discovery procedures of science in general. The advantages of established scientific procedures cannot themselves be scientifically demonstrated; they are recognized only because they have actually provided better results than alternative procedures.[1]

[1]See the interesting discussion of these problems in M. Polyani, *The Logic of Liberty* (London, 1951), in which the author is led from a study of the methods of scientific research to that of economic competition. See also K.R. Popper, *Logik der Forschung*, 2d. ed. (Tübingen, 1966), p. 16.

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The difference between economic competition and the successful procedure of science is that the former exhibits a method of discovering particular temporary circumstances, while science seeks to discover something often known as "general facts," i.e., regularities in events, and is concerned with unique, particular facts only to the extent that they tend to refute or confirm its theories. Since this is a matter of general and permanent features of our world, scientific discoveries have ample time to demonstrate their value, whereas the usefulness of particular circumstances disclosed by economic competition is to a considerable extent transitory. It would be as easy to discredit the theory of scientific method by noting that it does not lead to verifiable predictions regarding what science will discover, as it has been to discredit the theory of the market by noting that it does not lead to predictions about particular outcomes of the market process. By the nature of things, however, the theory of the market is unable to accomplish this in all those cases in which it is reasonable to make use of competition. As we shall see, the predictive power of this theory is necessarily constrained to a prediction of the type of structure or abstract order that will result; it does not, however, extend to a prediction of particular events.[2]

II.

Although this will lead me even further from my main topic, I should like to add a few words about the consequences of the disappointment in microeconomic theory caused by using fallacious methodological criteria of scientism. Most of all, this disappointment was probably the major reason why a great number of economists rejected it in favor of so-called macroeconomic theory, which, since it aims to predict concrete events, appears to correspond better with the criteria of scientism. In reality, however, it seems to me much less scientific–indeed, in the strictest sense, it can make no claim to the name of a theoretical science.

The basis for this point of view is the conviction that the coarse structure of the economy can exhibit no regularities that are not results of the fine structure, and that those aggregates or mean values, which alone can be grasped statistically, give us no information about what takes place in the fine structure. The notion that we must formulate our theories so that they can be *immediately* applied to observable statistical or other measurable quantities seems to me to be a methodological error which, had the natural sciences followed it, would have greatly obstructed their progress. All we can require of theories is that, after an input of relevant data, conclusions can be derived from them that can be checked against reality. The fact that these concrete data are so diverse

[2]See my essay "The Theory of Complex Phenomena" in *The Critical Approach in Science and Philosophy*, M. Bunge, ed. (London and New York, 1964). Reprinted in my *Studies in Philosophy, Politics, and Economics* (Chicago and London, 1967).

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and complex in our area of inquiry that we can never take them all into account is an unchangeable fact, but not a shortcoming of the theory. A result of this fact is that we can derive from our theories only very general statements, or "pattern predictions," as I have called them elsewhere;[3] we cannot, however, derive any specific predictions of individual events from them. Certainly, however, this does not justify insisting that we derive unambiguous relationships among the immediately observable variables, or that this is the only way of obtaining scientific knowledge—particularly not if we know that, in that obscure image of reality we call statistics, in aggregates and averages we unavoidably summarize many things whose causal meaning is very diverse. It is a false epistemological principle to adapt the theory to the available information, so that the observed variables appear directly in the theory.

Statistical variables such as national income, investment, price levels, and production are variables that play no role in the process of their determination itself. We might be able to notice certain regularities ("empirical laws" in the specific sense in which Carl Menger contrasted them to theoretical laws) in the observed behavior of these variables. Often these regularities apply, but sometimes they do not. Yet using the means of macrotheory, we can never formulate the conditions under which they apply.

This should not mean that I regard so-called macrotheory as completely useless. About many important conditions we have only statistical information rather than data regarding changes in the fine structure. Macrotheory then often affords approximate values or, probably, predictions that we are unable to obtain in any other way. It might often be worthwhile, for example, to base our reasoning on the assumption that an increase of aggregate demand will in general lead to a greater increase in investment, although we know that under certain circumstances the opposite will be the case. These theorems of macrotheory are certainly valuable as rules of thumb for generating predictions in the presence of insufficient information. But they are not only not more scientific than is microtheory; in a strict sense they do not have the character of scientific theories at all.

In this regard I must confess that I still sympathize more with the views of the young Schumpeter than with those of the elder, the latter being responsible to so great an extent for the rise of macrotheory. Exactly 60 years ago, in his brilliant first publication,[4] a few pages after having introduced the concept of "methodological individualism" to designate the method of economic theory, he wrote:

> If one erects the edifice of our theory uninfluenced by prejudices and outside demands, one does not encounter these concepts [namely "national income," "national wealth," "social capital"] at all. Thus we will not be further concerned with them. If we wanted to do so, however, we would see

[3]See my above-cited essay, "The Theory of Complex Phenomena."

[4]J. Schumpeter, *Das Wesen und der Hauptinhalt der theoretischen Nationalökonomie* (Leipzig, 1908), p. 97.

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> how greatly they are afflicted with obscurities and difficulties, and how closely they are associated with numerous false notions, without yielding a *single* truly valuable theorem.

III.

Returning now to my actual topic after having shared my concerns with you on this matter, I should like to begin with the observation that market theory often prevents access to a true understanding of competition by proceeding from the assumption of a "given" quantity of scarce goods. Which goods are scarce, however, or which things are goods, or how scarce or valuable they are, is precisely one of the conditions that competition should discover: in each case it is the preliminary outcomes of the market process that inform individuals where it is worthwhile to search. Utilizing the widely diffused knowledge in a society with an advanced division of labor cannot be based on the condition that individuals know all the concrete uses that can be made of the objects in their environment. Their attention will be directed by the prices the market offers for various goods and services. This means, among other things, that each individual's particular combination of skills and abilities—which in many regards is always unique—will not only (and not even primarily) be skills that the person in question can recite in detail or report to a government agency. Rather, the knowledge of which I am speaking consists to a great extent of the ability to detect certain conditions—an ability that individuals can use effectively only when the market tells them what kinds of goods and services are demanded, and how urgently.

This suggestion must suffice here to clarify the kind of knowledge I am speaking of when I call competition a discovery procedure. Much more would have to be added if I wanted to formulate this outline so concretely that the meaning of this process emerged clearly. What I have said, however, should be sufficient to point out the absurdity of the conventional approach proceeding from a state in which all essential conditions are assumed to be known—a *state* that theory curiously designates as perfect competition, even though the opportunity for the *activity* we call competition no longer exists. Indeed, it is assumed that such activity has already performed its function. Nonetheless, I must now turn to another question about which even more confusion still exists, namely the meaning of the claim that the market spontaneously *adjusts* the plans of individuals to the facts thus discovered; in other words, the question of the purpose for which the information thus discovered is used.

The confusion that prevails here can be ascribed above all to the false idea that the order which the market brings about can be regarded as an *economy* in the strict sense of the word, and that the outcome must therefore be judged according to criteria that in reality are appropriate only for such an individual economy. But these criteria, which hold for a true economy in which all

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effort is directed toward a uniform order of objectives, are to an extent completely irrelevant for the complex structure consisting of the many individual economies that we unfortunately designate with the same word "economy." An economy in the strong sense of the word is an organization or an arrangement in which someone consciously uses means in the service of a uniform hierarchy of ends. The spontaneous order brought about by the market is something entirely different. But the fact that this market order does not in many ways behave like an economy in the proper sense of the word—in particular, the fact that it does not in general ensure that what most people regard as more important ends are always satisfied before less important ones—is one of the major reasons people rebel against it. It can be said, indeed, that all socialism has no other aim than to transform catallaxy (as I am pleased to call market order, to avoid using the expression "economy") into a true economy in which a uniform scale of values determines which needs are satisfied and which are not.

This widely shared wish raises two problems, though. First, as far as the management decisions of a genuine economy or of any other organization are concerned, it is only the knowledge of the organizers or managers alone that can have any impact. Second, all members of such a genuine economy—conceived of as a consciously managed organization—must serve the uniform hierarchy of objectives in all their actions. Contrast this with the two advantages of a spontaneous market order or catallaxy: it can use the knowledge of all participants, and the objectives it serves are the particular objectives of all its participants in all their diversity and polarity.

The fact that catallaxy serves no uniform system of objectives gives rise to all the familiar difficulties that disturb not only socialists, but all economists endeavoring to evaluate the performance of the market order. For if the market order does not serve a particular rank ordering of objectives, and indeed if, like any spontaneously created order, it cannot legitimately be said to have definite objectives, neither is it then possible to represent the value of its outcome as a sum of individual outputs. What do we mean, then, when we claim that the market order in some sense produces a maximum or an optimum?

The point of departure for an answer must be the insight that, although the spontaneous order was not created for any particular individual objective, and in this sense cannot be said to serve a particular concrete objective, it can nonetheless contribute to the realization of a number of individual objectives which no one knows in their totality. Rational, successful action by an individual is possible only in a world that is to some extent orderly; and it obviously makes sense to try to create conditions under which any randomly selected individual has prospects of pursuing his goals as effectively as possible, even if we cannot predict which particular individuals will benefit thereby and which will not. As we have seen, the results of a discovery procedure are necessarily unpredictable, and all we can expect by employing an appropriate discovery procedure is that it will increase the prospects of unspecified persons, but not the prospects of any particular outcome for any

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particular persons. The only common objective we can pursue in choosing this technique for the ordering of social reality is the abstract structure or order that will be created as a consequence.

IV.

We are accustomed to calling the order brought about by competition an equilibrium—a none-too-felicitous expression, since a true equilibrium presupposes that the relevant facts have already been discovered and that the process of competition has thus come to an end. The concept of order, which I prefer to that of equilibrium, at least in discussions of economic policy, has the advantage of allowing us to speak meaningfully about the fact that order can be realized to a greater or lesser degree, and that order can also be preserved as things change. Whereas an equilibrium never really exists, one can nonetheless justifiably claim that the kind of order of which the "equilibrium" of theory represents a sort of ideal type is realized to a great extent.

This order manifests itself first of all by virtue of the fact that the expectations of particular transactions with other persons, upon which the plans of all the economy's participants are based, are to a considerable extent realized. This mutual adjustment of individual plans is brought about by a process that we have learned to call negative feedback ever since the natural sciences have also begun to concern themselves with spontaneous orders or "self-organizing systems." Indeed, as even well-informed biologists are now aware,

> long before Claude Bernard, Clark Maxwell, Walter B. Cannon or Norbert Wiener developed cybernetics, Adam Smith perceived the idea just as clearly in his *Wealth of Nations*. The "invisible hand" that regulates prices appears to express this idea. Smith says in essence that in a free market, prices are determined by negative feedback.[5]

It is precisely through the disappointment of expectations that a high degree of agreement of expectations is brought about. This fact, as we shall see later, is of fundamental importance in understanding the functioning of the market order. But the market's accomplishments are not exhausted in bringing about a mutual adjustment of individual plans. It also provides that every product is produced by those who can produce it more cheaply (or at least as cheaply) as anyone who does not in fact produce it, and that goods are sold at prices that are lower than those at which anyone could offer the goods who does not offer them. This does not of course prevent some people from extracting large profits above their costs, as long as these costs are considerably lower than those of the next best potential producer of the good. It

[5]G. Hardin, *Nature and Man's Fate* (New York and London, 1959). Mentor Edition, 1961, p. 54.

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means, however, that of the combination of different goods that is actually being produced, as much is produced as we can manufacture by any method that is known to us. That is of course not as much as we could produce if in fact all the knowledge that anyone possessed or could acquire were available at a central point and from there could be entered into a computer. The cost of the discovery procedure that we use is considerable. But it is unfair to judge the performance of the market in a certain sense "from the top down," namely by comparing it with an ideal standard that we are unable to attain in any known way. If we judge the market's performance "from the bottom up" (which seems to be the only permissible way), i.e., by comparison with what we could attain by means of any other method available to us, and in particular by comparison with what would be produced if competition were prevented–for example, if a good could be produced only by those the authorities allowed to do so–the market's performance must be judged as most considerable. We need only recall how difficult it is in an economy with effective competition to discover ways of providing consumers with better or cheaper goods than is presently the case. If, for a moment, we believe we have discovered such unrealized opportunities, we generally find that government authority or a highly undesirable exercise of private power have hitherto prevented their exploitation.

Of course, we must also not forget that the market can provide no more than an approximation of any point on the n-dimensional surface by which pure theory describes the range of possibilities that could conceivably be attained in the production of any combination of goods and services; but the market allows the particular combination of various goods and their distribution among individuals to be decided essentially by unforeseeable circumstances and in this sense by chance. As Adam Smith realized,[6] the situation is somewhat like agreeing to play a game based partly on skill and partly on luck. The rules of the game ensure that at the price such that each individual's share is left more or less to chance, the real equivalent of each individual's share, depending partly on chance, becomes as large as possible. In modern terminology we can say that we are playing a non-zero-sum game whose rules have the objective of increasing the payoff but leave the share of the individuals partly to chance. A mind endowed with full information could of course choose every point on the n-dimensional surface that appeared desirable to him and then distribute as he saw fit the product of the combination he chose. But the only point on (or at least somewhere near) that surface we can reach using a procedure known to us is the one we reach when we leave its determination up to the market. The so-called "maximum" we achieve in this manner cannot of course be defined as a sum of certain quantities of goods, but only by the opportunity it affords unspecified persons to receive as large an equivalent as

[6]See A. Smith, *Theorie der ethischen Gefühle*, W. Eckstein, trans. (Leipzig,, 1926), vol. 2, pp. 396, 467.

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possible for a share determined partly by chance. The fact that this outcome cannot be evaluated on the basis of a uniform value scale of desired concrete objectives is one of the main reasons it seems so misleading to me to consider the outcome of the market order or catallaxy as if it had anything to do with an economy in the proper sense.

V.

The consequences of this erroneous interpretation of the market order as an economy whose task is to satisfy the various needs according to a given rank ordering are reflected in political efforts to correct prices and income in the service of so-called "social justice." Notwithstanding the various meanings with which social philosophers attempted to invest this concept, in practice it has had virtually only one: protecting some groups of people from having to descend from the absolute or relative lifestyle they have heretofore enjoyed. Yet this is a principle that cannot be implemented in general without destroying the foundations of the market order. Not only continuous growth, but under certain circumstances even the preservation of the average income level attained depends on processes of adjustment that require a change not only of the relative shares but also of the absolute shares of individual persons and groups, even though such persons and groups are not responsible for the necessity of that change.

It is useful to recall at this point that all economic decisions are made necessary by unanticipated changes, and that the justification for using the price mechanism is solely that it shows individuals that what they have previously done, or can do now, has become more or less important, for reasons with which they have nothing to do. The adaptation of the total order of human action to changing circumstances is based on the fact that the compensation of the various services changes without taking into account of the merits or defects of those involved.

In this connection the term "incentives" is often used in a way that easily lends itself to misunderstanding, namely as though their primary purpose were to induce individuals to exert themselves sufficiently. The most important function of prices, however, is that they tell us *what* we should accomplish, *not how much*. In a constantly changing world, merely maintaining a given level of welfare requires constant adjustments in how the efforts of many individuals are directed; and these will only occur when the relative compensation of these activities changes. Under relatively stationary conditions, however, these adjustments—which are needed simply to maintain the income stream at its previous level—will not generate a surplus that could be used to compensate those who are disadvantaged by the price changes. Only in a rapidly growing economy can we hope to prevent an absolute decline in the material level of particular groups.

Today, customary treatments of these problems often overlook the fact that even the relative stability of the various aggregates that macroeconomics treats

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as data is the result of microeconomic processes in which relative price changes play a decisive role. It is an outcome of the market mechanism that someone is induced to fill the gap that arises when someone else does not fulfill the expectations on the basis of which a third party has made plans. In this sense all the collective supply and demand curves that we use so happily are not really data, but rather outcomes of the constantly ongoing process of competition. Thus, statistical information can never disclose to us what price or income changes will be needed to bring about the necessary adjustment to an unavoidable change of the data.

The decisive point, however, is that in a democratic society it would be completely impossible, using commands that could not be regarded as just, to bring about those changes that are undoubtedly necessary, but the necessity of which could not be strictly demonstrated in a particular case. In such a system, a conscious direction of the economy would always have to aim for prices that are considered fair, and in practice that can only mean preservation of the existing price and income structure. An economic system in which everyone received what others felt he deserved could not help but be a highly inefficient system, quite apart from the fact that it would also be an unbearably tyrannical one. For the same reason, it is also to be feared that any "incomes policy" would tend more to prevent than to facilitate those adjustments in the price and income structure required by the adaptation to unanticipated changes in conditions.

It is one of the paradoxes of our age that the communist countries, in this regard, are probably less burdened by ideas of "social justice" than are the "capitalistic" and democratic countries, and are thereby more prone to allow those who are disadvantaged by development to suffer. In at least some of the Western countries the situation is as hopeless as it is precisely because the ideology that determines policy renders impossible those changes that would be necessary to improve the situation of the working class quickly enough to make that ideology disappear.

VI.

If even in highly developed economies competition is important primarily as a discovery procedure whereby entrepreneurs constantly search for unexploited opportunities that can also be taken advantage of by others, then this is true of course to an even greater extent as far as underdeveloped societies are concerned. I have intentionally begun by considering the problems of maintaining an order in societies in which most techniques and productive forces are generally known, but also an order that requires continuous adjustment of activities to unavoidable small changes simply to maintain the previously attained level. At this point I do not wish to inquire into the role played by competition in the progress of available technology. I would like to emphasize, however, how much more important competition must be wherever the primary objective is to discover the still unknown possibilities in a society where

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competition was previously limited. While for the most part false, it might not be completely absurd to expect that we can predict and control the development of the structure of a society that is already highly developed. But it seems incredible to me to hold that we can determine in advance the future structure of a society in which the major problem is still to find out what kinds of material and human productive forces are present, or that we should be in a position, in such a country, to predict the particular consequences of a given measure.

Quite apart from the fact that there is still so much more to discover in such a country, it seems to me that there is another consideration making the greatest possible freedom of competition much more important here than in more highly developed countries. The fact I have in mind is that the necessary changes in habits and customs will occur only when those who are ready and able to experiment with new procedures can make it necessary for the others to imitate them, with the former thereby showing the way; but if the majority is in a position to prevent the few from conducting experiments, the necessary discovery procedure will be frustrated. The fact that competition not only shows how things can be improved, but also forces all those whose income depends on the market to imitate the improvements, is of course one of the major reasons for the disinclination to compete. Competition represents a kind of impersonal coercion that will cause many individuals to change their behavior in a way that could not be brought about by any kind of instructions or commands. Central planning in the service of any some "social justice" may be a luxury that rich countries can afford, but it is certainly no method for poor countries to bring about the adjustment to rapidly changing circumstances on which growth depends.

It might also be worth mentioning in this connection that the more the available opportunities of a country remain unexploited, the greater its opportunities for growth; this often means that a high growth rate is more a sign of bad policies in the past than of good policies in the present. It also seems that one cannot in general expect a country that is already highly developed to have as high a growth rate as a country whose full use of its resources has long been rendered impossible by legal and institutional barriers.

Having seen what I have of the world, it appears to me that the proportion of people who are prepared to try out new possibilities that promise to improve their situation—as long as others do not prevent them from doing so—is more or less the same everywhere. It seems to me that the much-lamented lack of entrepreneurial spirit in many young countries is not an unchangeable attribute of individuals, but the consequence of limitations placed on individuals by the prevailing point of view. For precisely this reason, the effect would be fatal if, in such countries, the collective will of the majority were to control the efforts of individuals, rather than that public power limits itself to protecting the individual from the pressure of society—and only the institution of private property, and all the liberal institutions of the rule of law associated with it, can bring about the latter.

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VII.

Although competition is by and large a quite resilient specimen as far as private firms are concerned—one that continues to resurface in the most unexpected manner after efforts to suppress it—its usefulness with respect to the one omnipresent factor of production, namely human labor, has been rendered more or less ineffective throughout the entire Western world. It is a generally known fact that the most difficult and indeed the apparently insoluble problems of present-day economic policy, which have occupied economists more than all other problems, are the result of the so-called rigidity of wages. This means in essence that the wage structure as well as the wage level has become increasingly independent of market conditions. Most economists consider this situation as an irrevocable development that we cannot change and to which we must adapt our policies. It is hardly an exaggeration to say that for the past 30 years, discussions of monetary policy in particular have dealt almost exclusively with problems of circumventing the difficulties created by inflexible wages. I have long since had the impression that this was a mere treatment of symptoms. For the moment, we might thereby cover up the fundamental difficulties, but this is not only a mere postponement of the moment at which we must directly confront the primary problem, but it also makes the eventual solution of the latter increasingly difficult. This is because accepting these rigidities as unavoidable facts not only results in increasing them, but also confers an aura of legitimacy on the antisocial and destructive practices that they cause. I must confess that as a result, I myself have lost all interest in the ongoing discussions of monetary policy, which was once one of my major areas of research, because this avoidance of the central issue seems to me to load the burden onto the shoulders of our successors in a most irresponsible manner. In a certain sense, of course, we are harvesting here only what the founder of this fashion has sown, since we are naturally already in that "long run" in which he knew he would be dead.

It was a great misfortune for the world that these theories arose from the very unusual and, indeed, perhaps unique situation of Great Britain in the 1920s—a situation in which it appeared obvious that unemployment was the result of too high a real wage *level*, and that the problem of rigidity of the wage structure thus had limited significance. As a result of Great Britain's return to the gold standard after years of war inflation at the parity of 1914, it could be claimed with some justification that all real wages in that country were too high relative to the rest of the world to achieve the necessary volume of exports. I am not convinced that this was really true even then. Even at that time, to be sure, Great Britain had the oldest, most deeply rooted, and most all-encompassing trade union movement, which through its wage policy had succeeded in conserving a wage structure that was determined much more by considerations of "justice" than of economic appropriateness. This meant by and large that the time-honored relationships between the different wages were maintained, and that any such change in the relative wages of the various groups as was required by changed circumstances had become effectively

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impossible. As things stood then, full employment could doubtless have been attained only by bringing some real wages–possibly those of numerous groups of workers–down from the level they had reached as a result of deflation. It is not certain, however, that this would necessarily have meant a decrease in the average level of real wages. Perhaps the adjustment of the structure of the entire economy brought about by the wage changes would have made this unnecessary. In any event, the emphasis that was customary, then as now, on the average real wage *level* of all a country's workers prevented this possibility from even being considered seriously.

It is perhaps useful to consider the problem from a broader perspective. It seems to me impossible to doubt that the productivity of a country's labor, and thereby the wage level at which full employment is possible, depend on the distribution of workers among the various branches of industry, and that this distribution is in turn determined by the wage structure. But if this wage structure has become more or less rigid, this will prevent or delay the economy's adjustment to altered circumstances. It is thus to be assumed that, in a country where the relationships between the various wages have been kept rigid for a long period of time, the real wage level at which full employment can be attained will be considerably below what it would be if wages were flexible.

It appears to me that a completely rigid wage structure would prevent adjustment to changes in other conditions, particularly without the rapid technological progress we are used to today. This also concerns especially the adjustment to those changes that must occur simply in order to keep the income level constant. A completely rigid wage structure is therefore liable to lead to a gradual decrease in the level of real wages at which full employment can be realized. Unfortunately, I am not familiar with any empirical investigations of the relationship between wage flexibility and growth. I would expect such investigations to disclose a high positive correlation between these two variables–not so much because growth leads to changes in relative wages, but above all because such changes are the necessary preconditions for that adjustment to changed conditions that is required by growth.

But the main point, I believe, is that if it is correct that the real wage level at which full employment is possible depends on the wage structure, and if the ratios among the various wages remain unchanged as conditions change, then the real wage level at which full employment comes into existence will either fall continuously or will not rise as rapidly as would otherwise be possible. This means that manipulating the real wage level by monetary policy offers no way out of the difficulties caused by the rigidity of the wage *structure*. Nor can a way out be offered by any practically possible "incomes policy." Rather, as things turn out, it is precisely the rigidity of the wage structure brought about by the wage policy of the trade unions in the supposed interest of their members (or of any notion of "social justice") that has become one of the greatest obstacles to an increase in the real income of workers as a whole; in other words, if the real wages of individuals are prevented from

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falling absolutely or at least relatively, the real wage level of workers as a whole will not rise as quickly as would otherwise be possible.

The classical ideal that John Stuart Mill described in his autobiography as "full employment at high wages to the whole labouring population" can be realized only by an economic use of labor, which in turn presupposes freely fluctuating relative wages. In the place of this ideal, the great man whose name will probably go down in history as the gravedigger of the British economy has popularized decreasing the level of real wages through a decrease of the value of money as a method of attaining full employment while recognizing the rigidity of the nominal wage structure. In my view, however, the experience of recent years clearly shows that this method offers only temporary relief. I believe we should no longer delay attacking the root cause of the problem. We cannot go on much longer closing our eyes to the fact that the interest of labor as a whole demands that the power of individual trade unions to maintain the relative position of their members against other workers be removed. The most important task at present appears to be convincing labor as a whole that removing the protection of the relative position of individual groups not only does not threaten the prospects for a rapid increase in the real wages of labor as a whole, but in fact enhances those prospects.

I will certainly not dispute here that for the foreseeable future it will remain politically impossible to restore a truly free labor market. Any such attempt would probably lead to such great conflicts that it could not be seriously considered–at least as long as employers do not collectively guarantee to maintain their employees' average real income. But precisely such a guarantee, I believe, is the only way of restoring the market to its function of determining the relative wages of the various groups. Only in this way, it seems to me, could we hope to induce individual groups of workers to give up the security of their particular wage rates, which has become the main obstacle to a flexible wage structure. Such a collective agreement between employers as a whole and employees as a whole seems to me a transitional measure deserving serious consideration, because the outcome would probably show workers how much they could gain from a truly functioning labor market. This would in turn create the prospect of subsequently eliminating the tedious and complicated apparatus that would initially have to be created.

What I have in mind is a general contract in which employers as a whole would promise workers as a whole, initially for a year, their previous real wage total plus a share of increased profits. Each individual group or individual worker, however, would receive in his monthly paycheck only a certain part, say five-sixths, of his previous wage. The rest (together with the agreed-upon share of the increased total profits of all enterprises) would be distributed in two additional monthly payments–at the end of the year and after the books are closed–to the employees of the various firms and branches of the economy, in proportion to the change in profits that results on the basis on the five-sixths of wages distributed. I have proposed five-sixths as the share of continuous payments, since this would make possible the payment of a Christmas

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bonus at the average level of a month's income on the basis of a preliminary estimate of profits, and of a second vacation bonus of approximately the same amount when the books are closed for the calendar year. For the subsequent year the average wages of the first year would again be guaranteed, but by the end of the year every group would be paid only five-sixths of the total amount paid in the previous year, plus a supplement at the end of the year for each group based on profits realized in the corresponding industry or firm, and so on.

Such a procedure would have somewhat the same effect as a restoration of the free labor market, except that labor would know that its average real wages could not decrease, but only increase. I would expect that such an indirect re-introduction of the market mechanism for determining the distribution of workers among industries and firms would bring with it a considerable acceleration of the increase of the level of average real wages, along with a stepwise decrease in the real wages of individual groups.

You will believe me when I say that I do not make so unusual a proposal lightly. But some measure of this kind, I believe, is today the only remaining way out of the increasing rigidity of the wage structure. This rigidity seems to me not only the major cause of the increasing economic difficulties of countries like Great Britain. It also drives such countries deeper and deeper into a planned and thereby still more rigid economic structure by misleading them into dabbling with the symptoms through "incomes policies" and the like. It seems that labor can only gain from such a solution, but I realize of course that trade union officials would lose through it a large part of their power and would therefore reject it completely.

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EUGEN VON BÖHM-BAWERK'S "VALUE, COST, AND MARGINAL UTILITY": NOTES ON THE TRANSLATION

GEORGE REISMAN

I first read Böhm-Bawerk's essay "Value, Costs, and Marginal Utility" 44 years ago, as part of my research for my MBA thesis, the subject and title of which was *The Classical Economists and the Austrians on Value and Costs*. I knew at the time that Böhm-Bawerk's essay very much deserved to be translated. And some 20 or more years later, seeing that no one else had yet made the translation, I decided that I would do it at some point. So, in 1980, on my first trip back to New York City after having moved to California, I visited the Columbia University Library, whose extensive collections included Conrad's *Jahrbücher für Nationalökonomie und Statistik*, the 1892 issue of which contained Böhm-Bawerk's essay. There, I made a copy of the essay. With one thing and another, such as writing my book *Capitalism*, that copy remained quietly filed away in my possession until last year, when I finally got around to seriously working on the translation.

I did not complete the translation until last December. And even now, I do not consider it as absolutely final, because here and there a better choice of words is almost certainly possible, as is the breaking up of some of the very long sentences and paragraphs of Böhm-Bawerk that still remain. In order to facilitate the making of any necessary changes, I have continued to indicate

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Böhm-Bawerk's essay originally appeared in Conrad's *Jahrbücher für Nationalökonomie und Statistik*, Dritter Folge, Dritter Band (1892, pp. 321-67). It appears below, pp. 37-79, in translation. It was originally delivered as a paper at the 2002 Austrian Scholars Conference. The translation and notes are copyright©2002 by George Reisman.

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the page numbers that appear in the original German text of Böhm-Bawerk's essay. Thus, for example, 321, shown in brackets at the very beginning of my translation, is the page in Conrad's *Jahrbuch* where Böhm-Bawerk's essay begins; 367, also shown in brackets is the last page in Conrad's *Jahrbuch* where Böhm-Bawerk's essay appears. The start of every intervening page in Conrad's *Jahrbuch* is likewise indicated in brackets, and the same procedure is followed within footnotes, in cases in which a footnote carries over to the next page.

I want to say as a broad proposition that in my opinion Böhm-Bawerk is the most important Austrian economist after Ludwig von Mises. I say this on the basis of the fact that his writings provide by far the best and most comprehensive development of the law of diminishing marginal utility and its application to price theory that is to be found anywhere. And to this, of course, must be added his major contributions on the subjects of capital and interest, including his critiques of the Marxian exploitation theory.

I suspect that Mises might have disagreed with my characterization of Böhm-Bawerk's importance. Mises was sometimes quite modest about his own contributions and, in addition, he had the same kind of awe and admiration of Böhm-Bawerk that I feel toward him, I once heard him compare Böhm-Bawerk to the Sphinx, who never slept and saw everything, and, on another occasion, describe how Böhm-Bawerk worked constantly, with the sole exception of taking time out to attend concerts on Sunday afternoons. Thus, it's entirely conceivable to me that Mises might have described Böhm-Bawerk as *the most important* Austrian economist. I know that he considered the translation of the third German edition of *Capital and Interest* to be of the very greatest importance and was the driving force behind it.

I would like to use an important observation of Mises's as the transition to my discussion of the specific importance of "Value, Cost, and Marginal Utility." In a little-known essay titled "The Role of Doctrines in Human History," which appeared in print for the first time in 1990, 17 years after his death, Mises (1990, p. 302) observes that "All doctrines are taught and accepted at least in two different, nay, conflicting varieties." As examples, he says:

> Catholicism had a different meaning for Cardinal Newman and for the hosts of the credulous. The Darwinian theory of evolution is something else than its popular version that man is a scion of apes. Freudian psychoanalysis is not identical with pansexualism, its version for the millions. (Ibid.)

He adds: "The same dualism can be stated with all social, economic, and political doctrines." And he concludes: "An unbridgeable gulf separates the esoteric teaching from the exoteric one."

In other words, Mises claims that it is common, indeed, universal, that doctrines circulate in two or more varieties. One is the genuine version, which is typically complicated and more or less difficult to understand and can therefore be characterized as "esoteric." And then there are one or more other,

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far more simplified versions of the same doctrine, which can thus be characterized as "exoteric." (I have to admit that I had not remembered seeing or hearing the word "exoteric" before reading this essay. According to my dictionary, it means "suitable for or communicated to the general public.")

The title of the section of the article in which Mises makes these points is "Esoteric Doctrines and Popular Beliefs." He begins it with an explanation of the underlying cause that gives rise to the existence of two or more versions of the same doctrine, which he describes in the following words:

> Any attempt to study human conduct and historical changes has to make ample allowance for the fact of intellectual inequality of men. Between the philosophers and scholars who contrive new ideas and build up elaborate systems of thought and the narrow-minded dullards whose poor intellect cannot grasp but the simplest things there are many gradual transitions. . . .
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> Only a small elite has the ability to absorb more refined chains of thought. Most people are simply helpless when faced with the more subtle problems of implication or valid inference. They cannot grasp but the primary propositions of reckoning; the avenue to mathematics is blocked to them. It is useless to try to make them familiar with thorny problems and with the theories thought out for their solution. They simplify and mend in a clumsy way what they hear or read. They garble and misrepresent propositions and conclusions. They transform every theory and doctrine in order to adapt it to their level of intelligence. (Ibid., pp. 301f.)

Now this duality or multiplicity of versions of the same doctrine, I have to say, applies to Austrian economics, at least to that aspect of Austrian economics that is most immediately relevant here and now, namely, the Austrian doctrine on the relationship between value, cost, and marginal utility. I want to say, however, that I am not prepared to believe that the cause in the present case is necessarily a problem of differences in intelligence. All versions of Austrian economics are still confined to relatively small and more-or-less scholarly audiences, comprised almost entirely of people with well-above-average intelligence. Thus, I cannot help but believe that the problem is more one of a failure to read and study the genuine Austrian doctrine than any actual inability to comprehend it by those involved.

However that may be, the genuine Austrian doctrine on the relationship between value, cost, and marginal utility is to be found first and foremost in the writings of Böhm-Bawerk. Böhm-Bawerk represents the "Real McCoy" of Austrian economics when it comes to the theory of value and price. The present essay is, of course, by no means the only place in which he presents it. One should give equal or even greater weight to his treatment of the whole subject of value and price in *Capital and Interest*, including the supplementary essays in volume three of that work. The present essay serves to reinforce and amplify the treatment given there and to highlight the treatment of the relationship between value, cost, and marginal utility.

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The simplified or exoteric version of the Austrian doctrine on the relationship between value, cost, and marginal utility is that the value of each and every product is determined by its marginal utility, which, in turn, reflects the demand for and supply of the product concerned. In no case do costs of production determine the value of products. Rather, costs of production, which represent the value of the means of production, are themselves determined by the marginal utility of the products they produce. The only way in which costs of production can possibly influence the value of products, if they do so at all, is, according to the exoteric version of Austrian economics, indirectly, by way of changes in supply.

Thus, for example, if the value of a product exceeds its cost of production by more than the going rate of return on capital, the supply of the product will be increased and its price will fall, bringing it closer to its cost of production, and its rate of return closer to the going rate. If, on the other hand, the value of a product does not exceed its cost of production, or does so only by an amount insufficient to yield the going rate of return on capital, then its supply will be decreased and its price will rise, until it equals its cost of production plus enough net return to yield the going rate of return. At all times, however, the immediate, direct determinant of the price of the product is its marginal utility, which is always determined by the demand for and supply of the product concerned.

This, I say, is the exoteric version of Austrian economics—the popular version, if one will, though, of course, not any kind of version of the masses, who have never even heard of Austrian economics.

Now let me turn to the more elaborate, more complicated—esoteric—version presented by Böhm-Bawerk and, incidentally, also by Wieser, who in the relevant respects agrees with Böhm-Bawerk. I will begin simply by reading the five points Böhm-Bawerk enumerates in reply to Heinrich Dietzel, a contemporary German economist who taught at the University of Bonn, and who had written a number of essays criticizing what Böhm-Bawerk describes as the "marginal-value theorists," by which, of course, he means the Austrian economists. Based on my understanding of what most people understand by Austrian economics, I believe the reader will find the quotation to be downright startling, because most of Böhm-Bawerk's corrections of the misunderstandings of Dietzel apply with equal force precisely to what the great majority of today's Austrian economists believe about Austrian economics. The only difference is that what Dietzel held to be a shortcoming of Austrian economics, namely, its alleged denial of the role of cost of production in the determination of value and price, today's Austrian economists hold to be a virtue. Böhm-Bawerk writes:

> Whoever reads these passages, and numerous similar passages, in which Dietzel again and again puts forward the truth and expediency of cost valuation and criticizes us for "denying" or "not seeing" anything whatever that relates to cost valuation, must necessarily come to the conclusion that we marginal-value theorists really had overlooked the law of costs and, on

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the basis of doctrinaire whim, had ignored the abundance of knowledge that can be obtained for the explanation of value from the relationship between costs and value.

In fact, the very opposite is the case. Whoever has read our writings, even with halfway attention, knows this. [328] However, in order to rule out every doubt and every misunderstanding, I want to make a few explicit declarations:

(1) We too fully recognize the sway of a "law of costs" for goods that are reproducible at will. "There is a law of costs"—I once wrote—"costs exercise an important influence on the value of goods." "That costs of production of goods exercise an important influence on their value is a fact so well verified by experience that it absolutely cannot be doubted." "One is in fact correct, when one says that costs govern value."

(2) We too recognize the necessity of "supplementing" the universal law of marginal utility by means of special provisions that relate to the value of goods reproducible at will and that the substance of these is precisely the law of costs. And we have accomplished this "supplementing" in full detail, both for the field of subjective value and for that of objective value and prices.

(3) We too understand the law of costs in such a way that we ascribe to the height of the costs of production, that is to say, to the value of the means of production, the status of a cause—though, to be sure only an intermediate cause—in relation to the value of those products to which the law of costs generally applies. "In our present case (that of goods reproducible at will and of higher direct marginal utility), the value of the product must accommodate itself" (to the value of the means of production). "The value of products of higher direct marginal utility . . . comes to them from the side of the means of production."

(4) In connection with this, we too acknowledge that changes in the conditions of producing goods reproducible at will never fail to bring about a change in the value of those goods and, to be sure, even without a change in the supply of finished products necessarily having to take place. To be sure, Dietzel maintains, with special emphasis reinforced by numerous repetitions (*Werttheorie*, pp. 593, 596), that "according to the marginal-value theorists, no change in value can appear here" and in the case of the same supply but different costs of production "valuation according to marginal utility [must] be absolutely the same." And he also does not fail, with equally great emphasis and equally many [329] repetitions, to add the further assertion that "valuation according to marginal utility is incapable of doing justice to influences on value that operate from the side of the conditions of production." Both pronouncements are proof only of the fact that Dietzel has not made himself better acquainted with the text and spirit of the theory of marginal utility.

(5) Finally, we too recognize the fact—on which Dietzel places such great stress—that in practice the value of goods reproducible at will is usually directly estimated by economizing subjects according to the costs, and we append to this recognition the one condition, which, indeed, Dietzel himself

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> requires, and must require, that the height of the costs is already known to the valuing individuals or is settled for them. "Countless times we already know the value of the cost goods . . . and in all these cases we measure . . . the value of products simply according to their costs." We are a long way from having the intention of putting the use of costs as a standard out of "circulation" or of allowing consideration of costs to take the stage only in "exceptional cases."
>
> In short, concerning everything that is true and essential in the law of costs–that costs "govern" the value of goods reproducible at will, that we usually directly value these goods according to cost value, that changes that occur on the side of costs cause changes in value, and the like–we marginal-value theorists have not missed or denied an iota. The one difference–and I even believe that Dietzel would agree with us to a considerable extent, although he is by no means clear concerning how far he agrees with us–the one difference consists of the fact that we believe that with the statement of the law of costs we have not yet reached the end of the explanation.

Those are Böhm-Bawerk's own words.

To understand them, one must realize that according to Böhm-Bawerk, the basic, primary relationship between the value of products and the value of means of production is that the former determines the latter; that is, the value of products determines the value of the means of production. However, it is not the value of *all* products that determines the value of the means of production. Rather, it is the value of *marginal* products that determines the value of the means of production. The value of means of production, determined by the value of their marginal products, then operates to reduce the value of supramarginal products to the value of the marginal products. That is, in the case of supramarginal products, *the value of the means of production is determinative* in reducing the value of the products below what it would be if they were not related by way of production to the marginal products and instead had to be governed by their own, direct utility or marginal utility. Because they are related by way of production to the marginal products, the value of the supramarginal products is reduced to that of the marginal products.

In saying that the value of the supramarginal products is governed by the value of the means required to produce them, one says, of course, that the value of the supramarginal products is determined by their cost of production, for that is precisely what the value of the means required to produce them is. However, the equally important further implication of the discussion is that while cost of production is a real and frequent direct determinant of the value of products, it is never an ultimate determinant but is merely the means whereby the marginal utility of some products determines the value of other products. Thus, the causal role of costs in determining the value of products reproducible at will is, in Böhm-Bawerk's view, both true and, at the same time, a major vehicle for the operation of the law of diminishing marginal utility.

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Please note. Contrary to the prevailing neoclassical doctrine, according to Böhm-Bawerk, the marginal product of a means of production need not exist in each and every industry that employs that means of production. It may exist in just one or a few of the industries that use one or more of the same means of production. Thus, for example, the marginal product of iron need not exist in all industries producing iron products. Conceivably, it might exist just in the production of bicycle bells or door knockers made of iron. The value of iron determined with respect to its marginal products would then be determinative for the value of such supramarginal products as iron and steel girders and surgical instruments made of iron and steel.

In Böhm-Bawerk's own words:

> All those goods and kinds of goods, which can be produced at will from one and the same means of production or cost good–following the practice of Wieser, we call them "production-related"–thereby, on that very basis, enter into a kind of community, within which value has the tendency everywhere to present itself on the same level. That is to say, just as several specimens of the same kind of good, for example, several sacks of the same grain or several hundred-weight of the same iron, must have the same value, when and because they can be drawn upon at our pleasure for the same useful services and can be mutually substituted for one another, just so, no difference in value between two goods of different kinds can persist, when and because they can be produced or replaced at our pleasure and in any quantity desired by means of one and the same third good–by means of their common producers' good or cost good. And just as, furthermore, the value of each of several identical sacks of grain is determined according to the law of marginal utility by the utility of the "last," most easily dispensable sack, just so the value of all production-related goods together is determined by the utility of the "last," most easily dispensable product which is brought forth from the common production source, or, as we call it, by the marginal utility of the "marginal product." This provides the measure both for the value of the common cost good as well as, via this last, the value of all other products produced by means of same.

Allow me to illustrate Böhm-Bawerk's point here by means of a modification of his famous example of the pioneer farmer with five sacks of grain. As will be recalled, the five sacks serve wants in descending order of importance. One sack is necessary for the farmer to get through the winter without dying of starvation. The second enables him to survive in good health. The third enables him to eat to the point of feeling contented. The fourth enables him to make a supply of brandy. The fifth enables him to feed pet parrots.

Imagine that the first sack actually bears a little tag, describing it as "Sack Required for Survival." Now imagine that rats or other vermin destroy the contents of this sack. What is the magnitude of the farmer's loss? Is the utility of the lost sack as great as the importance he attaches to his life? Is his life at stake? The answer to these questions is "not at all." Since he can easily replace that sack with any of the other four remaining sacks, his actual loss

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will be the least important of the wants provided for by those four sacks. That, of course, will be the feeding of the parrots. The principle is that the utility of any sack—more broadly, of any unit of a homogeneous supply whose units can be mutually substituted for one another—will equal the utility of the marginal unit of the supply, that is, the utility of the least important unit of the supply.

Now let us slightly modify the example. Let us imagine that the first sack of grain has been used to make a supply of flour, which in turn has been used to make a supply of biscuits, and that it is this resulting supply of biscuits by means of which the first sack of grain performs its service of preserving the farmer's life. Once more, we can imagine a little tag attached, this time saying, "Biscuits Required for Survival." As before, our farmer still has four remaining sacks of grain, any of which can be used to make a fresh supply of flour and then a fresh supply of biscuits. And now, just as before, we may imagine rats or other vermin destroying the supply of biscuits.

Will the answer to the question concerning the magnitude of the farmer's loss be materially different? Certainly, his life does not depend on the supply of biscuits any more than it did on the sack of grain. For he can replace that supply of biscuits at the expense of the marginal employment of the remaining sacks of grain, which, of course, is the feeding of the pet parrots. To be sure, additional labor will have to be applied as well, but the magnitude of value lost here is that of the marginal product of that labor, which might be something such as the construction of a sun shade or an additional sun shade or even the feeding of the parrots. The point is that the value of the biscuits will not be determined by the importance of the wants directly served by the biscuits but by the importance of the marginal wants served by the means of production used to produce biscuits and from which a replacement supply of biscuits can be produced at will.

Those who have a good memory of Böhm-Bawerk's example of the pioneer farmer may come to the conclusion that to make my example closer to his in pattern, I should perhaps assume that three sacks of grain had been used to bake a tripled supply of biscuits, since it was three sacks that were intended to serve the food consumption of the farmer. I'm happy to make that modification, because it actually helps to bring out a further point.

If, as before, the supply of biscuits lost is still equal to the product of only one sack of grain, and if there are still two sacks that remain—one set aside for making brandy and one for feeding the parrots—the loss will still reduce to that of the importance of feeding the parrots and to the importance of the marginal product of the labor needed to process that sack into a fresh supply of biscuits.

What this particular example helps to bring out is the fact that even though there is some significant gradation in the marginal utility of different portions of the supply of biscuits, the value of any part of the supply of biscuits is not determined by the marginal utility of biscuits but by the still lower marginal utility of the fifth sack of grain, whose employment lies outside of biscuit making. The value of the biscuits is governed by the lesser marginal value of the means

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of producing biscuits, which, in turn of course, is governed by the value of the true marginal product in this case, namely, the survival of the parrots.

And this opens up another insight, which Böhm-Bawerk and Wieser astutely drew, and which was clearly stated in one of the five enumerated points I quoted. We can see it merely by changing our assumption as to the supply and marginal utility of the remaining sacks of grain. If there were only one remaining sack of grain, the value of the lost supply of biscuits in question would be higher: it would reflect the value attached to the prospective supply of brandy rather than that of the pet parrots. And if, on the other hand, there were a third remaining sack of grain, to be used for some further, still less important purpose than the feeding of parrots, the value of the lost supply of biscuits in question would be lower.

These observations imply, as Böhm-Bawerk and Wieser saw, that the influence of cost of production on prices, in transmitting the value of marginal products to supramarginal products, can exist in the face of *unchanged supplies* of the supramarginal products. As Böhm-Bawerk wrote, and as I quoted him before:

> In connection with this, we too acknowledge that changes in the conditions of producing goods reproducible at will never fail to bring about a change in the value of those goods and, to be sure, even without a change in the supply of finished products necessarily having to take place.

I can say now that in an accompanying footnote, he quotes Wieser as saying in the latter's *Natural Value*: "Cases of the kind last discussed are conspicuous in that *the effect of cost on the value of the products takes place without the quantity of products being affected.*" (Italics in original. Translation mine.)

This point is highly significant. On the one side, it introduces a major line of opposition between Austrian economics and contemporary neoclassical economics, with the latter's endless concern for elasticity of demand, down to the point of alleging the need to construct four-firm and eight-firm concentration ratios, as measures of the alleged ability of firms to exploit the elasticity or inelasticity of demand. The implication of cases of the kind just discussed is that the demand may even be perfectly inelastic and, in the case of goods reproducible at will, it does not affect the price: the price will be determined by cost of production.[1] The result is that oligopoly theory, game theory,

[1]I believe that actual, real-world cases of perfectly or near perfectly inelastic demand curves abound in the realm of many kinds of spare parts. What depends on the presence or absence of many spare parts is all or most of the utility of the good for which the part is necessary. For example, probably the entire utility of many electrical goods depends on the presence or absence of a simple fuse, which can typically be purchased for less than a dollar, perhaps even for a matter of pennies. Even the most marginal electrical appliance in the entire economic system that depends on such a fuse probably has a utility that is far higher. The case is similar with respect to automobiles and the various spare parts they require. Buyers of such parts rarely pay prices that even remotely approach the value they

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the doctrines of imperfect competition and pure and perfect competition–all either fall away completely or else are relegated to a modest, relatively obscure corner of economic theory, when it is realized that the prices of goods reproducible at will are generally determined by cost of production.

At the same time, on the other side, Austrian economics appears much less distant from old British classical economics, which, of course, also recognized the role of cost of production in determining the price of goods reproducible at will.[2] Unfortunately, of course, classical economics mistakenly held cost of production to be the *ultimate* explanation of the value and price of goods, which it is not, being in fact, as Böhm-Bawerk shows, merely the vehicle for the transmission of marginal utility from the value of marginal products to that of supramarginal products.

However, with the meticulous precision that is so characteristic of him, Böhm-Bawerk suggests that even this difference might have vanished had the classical economists been in a position to see matters as he and Wieser did. Ricardo, he points out, saw clearly that "'corn is not high because a rent is paid' (that is, because the producers' good use-of-land has a value) but 'a rent is paid because corn is high.'" There is not such a great distance between that insight and the recognition that the value of means of production in general ultimately derives from the value of products and does so no less in all those numerous cases in which the value of the means of production is the immediate or direct determinant of the value of supramarginal products.

Böhm-Bawerk's characteristic care and precision even lead him to acknowledge that the quantity of labor required to produce goods can be a

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attach to their automobiles, even though without the parts in question their automobiles would be largely or entirely useless.

[2]For example, Ricardo (1823, chap. 30) writes:

> If the natural price of bread should fall 50 per cent from some great discovery in the science of agriculture, the demand would not greatly increase, for no man would desire more than would satisfy his wants, and as the demand would not increase, neither would the supply; for a commodity is not supplied merely because it can be produced, but because there is a demand for it. Here, then, we have a case where the supply and demand have scarcely varied, or if they have increased, they have increased in the same proportion; and yet the price of bread will have fallen 50 per cent at a time, too, when the value of money had continued invariable.

It is not without wisdom that Lionel Robbins says, in his introduction to Philip Wicksteed's *Common Sense of Political Economy* (1933),

> a very good case could be made out for the view that, with all their differences, the systems which seem to make the clearer break with the past are, in fact, nearer in spirit to the classical system than those which have preserved more closely the classical terminology and apparatus.

The system making the clearer break, of course, is that of Austrian economics. The one more closely preserving the classical terminology is that of Alfred Marshall.

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causal determinant of their value, in fact, one that is more fundamental than marginal utility itself, because it (along with a variety of other causal determinants) helps to determine marginal utility. Thus, in the present essay, he says at one point,

> If, however, we want to refer only to the technical facts of production, then it is entirely correct that these help to determine marginal utility. For example, the less the material and labor that the production of a jacket costs, the more jackets, of course, can one produce with the means of production available. Thus the more completely can the need for clothing be satisfied. And thus, other things being equal, the lower will be the marginal utility of a jacket. The technical conditions of production are, therefore, to be sure a cause of the value of goods lying further back, a "more ultimate" cause, than marginal utility.

Let me point out immediately that there is not an iota or scintilla of anything here that should be construed as giving any kind of aid or comfort to Marxism. Quite the contrary. By reducing the quantity of labor required to produce products, one increases the supply of products relative to the supply of labor and thereby reduces the marginal utility and price of products relative to the marginal utility and price of labor; that is, one raises real wage rates. This is precisely what businessmen and capitalists continuously accomplish under laissez-faire capitalism by means of their continuous efforts to raise the productivity of labor. While this inference may not be found to be stated directly or very forcefully in Böhm-Bawerk, I consider it to be clearly present in his writings.

In conclusion, I believe that the serious study of Böhm-Bawerk's writings is an essential aspect of the education of every true Austrian economist. For those who have not yet embarked upon such a study, this essay of Böhm-Bawerk's, "Value, Cost, and Marginal Utility," can serve as an excellent starting point. For those who have so embarked, this essay should certainly not be missed.

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VALUE, COST, AND MARGINAL UTILITY

EUGEN VON BÖHM-BAWERK

TRANSLATED BY GEORGE REISMAN

I.
INTRODUCTION

[321] Over a year ago, with his essay "die klassische Werttheorie und die Theorie vom Grenznutzen" ["The Classical Value Theory and the Theory of Marginal Utility"],[1] which appeared in this yearbook and in which he declared himself in favor of the rival, older value theory, which bases the value of goods on costs, Professor Dietzel inaugurated a polemic against the modern value theory of marginal utility. This attack was not an isolated case. Somewhat earlier it had been started by the eminent Danish scholar Scharling in his essay, well-known to the readers of this yearbook, concerning "Werttheorien und Wertgesetze" ["Theories of Value and Laws of Value"].[2] In Italy, A. Loria[3] conducts it with an extraordinarily quarrelsome spirit. It is present even in France. Finally, it is right now carried on in America with particular interest and keen activity.

The outbreak and the rapid spread of this controversy is not in the least surprising. It is the completely natural consequence of the scientific situation in which the theory of value presently finds itself. So long as the theory of

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The essay originally appeared in Conrad's *Jahrbücher für Nationalökonomie und Statistik*, Dritter Folge, Dritter Band (Jena: Verlag von Gustav Fischer, 1892), pp. 321-67.

[1]New series, vol. 20, pp. 561-606.

[2]New series, vol. 16, pp. 417ff. and 513ff.

[3]See my essay "Zur neuesten Litteratur über den Wert" ["On the Most Recent Literature Concerning Value"], in these yearbooks, third series, vol. 1, pp. 880ff.

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marginal utility had only a few supporters, it was only infrequently the subject of polemics. In the last years, however, it has gained so greatly in influence and prestige in most countries that it began seriously to threaten the dominance of the hitherto prevailing classical cost theory. Naturally, the supporters of the latter turned to its defense, and so, unavoidably, as often happens in the history of science, the decisive battle between the old and new theory broke out all along the line.

[322] From the very first, I have regarded the polemics of the eminent scholars as an introduction to such a decisive battle, and not as a merely passing controversy. And I have wished to elevate the developing controversy as far as possible above the level of the usual polemic between two individual scholars. I have wished that it might be free of all useless squabbles over nonessentials, over inadvertent oversights, over careless or unclear casual remarks, which belong not to the account of the actual doctrines but only to the personal account of the authors. I have wished that accordingly the controversy might be regarded not as a contest of persons, but as a genuine contest of the doctrines themselves.

Guided by this wish, I permitted myself in "Zwischenwort zur Werttheorie" ["Byword on the Theory of Value"][4] to propose to Professor Dietzel a series of preliminary questions aimed at the most precise possible clarification of the actual subject of dispute. A genial reply to these questions, which, to be sure, in both its tone and content, afforded me several surprises, followed before long in the extensive essay "Zur klassischen Wert- und Preistheorie" ["On Classical Value and Price Theory"].[5]

Urgent tasks within my official work allow me only now to present my rejoinder.[6] It was unavoidable, based on the nature of the whole occasion, that it too wears a polemical garb. I could not address myself to a disembodied, depersonalized ghost of the cost theory, after Dietzel, one of the most competent representatives of German theory, had confronted me with a concrete embodiment of that theory. The polemic imposed a somewhat unpleasant element on me only insofar as I frequently had to correct Dietzel factually and, to be sure, to correct him in his statements concerning what the theory of marginal utility allegedly teaches and does not teach. In any case, I hope that these corrections, whose necessity was imposed upon me, however tiresome

[4]New series, vol. 21, pp. 519ff

[5]Loc. cit., pp. 685 ff. For the sake of brevity, in the following pages I will always cite the first polemic of Dietzel's only as "Werttheorie" and the second as "Wert- und Preistheorie."

[6]My rejoinder, however, was almost fully complete a long time ago. Only the last revision, for which I could no longer find the time, remained to be completed. In order finally to complete it, I had to refuse to engage in extensive changes or additions and was therefore also not in a position to consider individual essays that had appeared in the interval, such as, in particular, the interesting essay of Patten's concerning "Die Bedeuting der Lehre vom Grenznutzen" ["The Meaning of the Theory of Marginal Utility"] Dritter Folge, Dritter Band 2, of these yearbooks, pp. 481ff.

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and unpleasant they were to me, will be of some benefit. For if even Dietzel, who has made the theory of marginal utility the special object of his studies and his attacks, has not acquired correct knowledge of its content, I must indeed assume that such knowledge may not be [323] present in the minds of many other colleagues, who had less cause to make themselves familiar with that theory. In that I therefore correct various factual errors of Dietzel's, I will probably at the same time clear away much common prejudice against the theory of marginal utility and with it also much of the embarrassing misunderstanding that still prevails.

And unfortunately, I must make an immediate correction. Among the surprises which Dietzel's reply to my "Zwischenwort" brought was above all a very strange comment that I cannot interpret otherwise than as an objection of a not entirely proper, indeed, somewhat evasive procedure on my part.

In clear language and in the tone of an objection,[7] Dietzel attributed to me the intention, by means of my posing of questions, to again shift the discussion from the basis until now chosen by the marginal-value theorists themselves and "to transfer the controversy to another field." I allegedly move "the theme out of the sphere of the economy of the isolated individual, within the bounds of which Dietzel had demonstrated, into the field of the social economy." In my third question, I allegedly had asked of Dietzel a theory of prices; in my fourth, a theory of wages.

Dietzel is mistaken. I asked nothing of him other than a clearer explanation of his own statements. That in so doing, I stepped beyond the narrow bounds of Crusoe economics—though not so far as Dietzel assumes[8]—is entirely correct, but is only the simple consequence of the fact that Dietzel's own statements and assertions had gone beyond that realm. He himself had not only repeatedly discussed concrete cases of social-economic value formation in his first essay in an expressly critical and polemical way, but his whole approach, stated in the very title of his essays, aimed at nothing other than opposing the "classical theory of value" to the theory of marginal utility. In practically the same sentence in which he objects to my going beyond Crusoe economics, he stresses again that he holds to the "classical theory," formulates it more carefully and unassailably, and believes he has shown how it can be combined with the theory of marginal utility. Now, as far as I know, the classical theory has nothing whatever to do with internal, subjective economic value but only with social-economic exchange value. What is in contention under the heading classical value theory versus the theory of marginal utility is social-economic value formation, the value formation of the modern economy, [324] not that of Crusoe economics. And in such a discussion, in which Dietzel himself goes beyond the bounds of the isolated economy whenever he wishes, shall only we marginal-value theorists carefully guard ourselves against speaking of anything but Robinson Crusoe and his value judgments?

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[7]"Wert- und Preistheorie," pp. 685, 686, 706.

[8]The subject of my fourth question, for example, was not at all the theory of wages, but merely the *subjective* value of the good labor.

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Let us not play hide and seek! What concerns Dietzel, myself, and the public in our controversies are not in the least the imagined joys and sorrows, the reflections and valuations of a nonexistent Robinson Crusoe, but the things that matter to us. What one wants from science is that it portrays the real world, and that is what we marginal-value theorists have always sought to do. For us, Robinson Crusoe is a first probe, a methodological tool, and nothing more. For good reasons, we practice our and our readers' eyes for a time on his peaceful figure before we attempt to step to the more complicated picture of full reality. However, the real showplace of our theory is full, social-economic reality. Our theory of value would be utterly worthless, and we would be unable to convert a single member of the public to it, if we were not able to show that it applied not merely to exercises in Crusoe economics but also to full, living reality.

Dietzel knows that as well as I do, and nevertheless he demands that I limit my rejoinder to exercises in Crusoe economics! Indeed, doesn't he know what objection—to be sure unjustly—one usually makes against us marginal-value theorists? Has he forgotten what objection he himself made against us not very long ago? In this very yearbook, scarcely five years ago, Dietzel, criticizing a work of Wieser's,[9] totally dismissed the theory of subjective value, of the subjective experience of utility by the individual, from the realm of economic science. He declared the social problem of exchange value to be the sole problem of economic science. He doubted whether "we could, with any prospect of success, take subjective value as our starting point for the explanation of the complicated phenomena of social-economic life." And he urged the marginal-value theorists to prove that their law of marginal utility shed light on the phenomena of social economy. Up to now, he could not find the bridge that led from the individual's subjective experience of utility to the workings of economic society. In short, Dietzel gave as clearly as possible to understand that he regarded the whole theory of internal, subjective economic value as nothing better than frivolous child's play, of no use for the real problem of economic value and incapable of proving anything about it.

[325] Now I observe with pleasure that Dietzel for his part has completely given up his previous opinion. But what guarantee can I have that this will make any real difference? Should I, diligently and patiently, before impatient readers, refute nothing but the Robinson-Crusoe psychology of the Dr. Dietzel of 1890, only to find that, when that has been accomplished, one of the numerous intellectual compatriots of the Dr. Dietzel of 1885 again says that while that may be all well and good, it still means nothing for the real world—that while marginal utility may apply to Robinson Crusoe, for the real world the rule of costs remains unrefuted? My esteemed opponent must forgive me, but I had indeed directed my "Zwischenwort" to him only for the most expressly explained purpose of finally bringing the controversy to a really

[9]See Dietzel's review of Wieser's *Ursprung und Hauptgesetze des wirtschaftlichen Wertes* in this yearbook, new series, vol. 11, pp. 161f.

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decisive conclusion. When, under these circumstances, Dietzel demands that in my discussions I carefully refrain from touching on precisely that area in which the substance of the problem lies and in which alone it is possible to convince the public, I can only take this demand, my esteemed opponent must forgive me once more, as a joke on his part, and, to be sure, as a somewhat Machiavellian joke.

And now to come to the real point.

The unflattering overall judgment of Dietzel's concerning the theory of marginal utility can be approximately summarized in the following two propositions: As far as it applies to goods not capable of being reproduced at will, the theory of marginal utility is true, but not new; and as far as it applies to goods which are capable of being reproduced at will, it is new, but not true.

I will not go into the first half of Dietzel's view any further. Zuckerhandel[10] has already so effectively said whatever can be said about it that I am unable to compete with his discussion. At most, I want to express my pleasure that Dietzel now does acknowledge one-half of the theory of marginal utility as "true, but not new." That represents great progress.

A few years ago, the uniform judgment of the whole marginal value theory was the same as Dietzel's judgment is now concerning only the second half of it, namely, "new, but not true." (At the time, Dietzel too did not oppose that view, though, to be sure, as the reviewer of a major work of Wieser's, he at least had a very easy opportunity to do so.) At that time, I was a voice in the wilderness, who espoused the truth of a theory that general opinion condemned as heretical and who, in order to soften as far as possible the impression of a foreign innovation, was at great pains [326] to search out and make the public aware of all connecting links and literary relationships which unite the new theory with the old, classical theory.[11]

If now, today, half of the theory, which at that time was completely rejected, is recognized as banal, self-evident truth, then I and my associates can readily accept the reproach that is at most that we have convinced people all too well of its truth. We can certainly live with this reproach. Correctly understood, I would very much like to earn it for the second half of the marginal value theory, concerning which Dietzel today still makes the claim that it is "new, but not true." If one concedes the truth of our presently disputed theory, one can describe it as much as one likes as "old." Indeed, no one has more eagerly sought and shown the literary sources of this "age" than we ourselves have long done.

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[10]"Die klassische Werttheorie und die Theorie vom Grenznutzen" ["The Classical Theory of Value and the Theory of Marginal Utility"] in this yearbook, new series, vol. 21, pp. 509 ff.

[11]For example, in my "Grundzüge der Theorie des wirtschaftlichen Güterwerts" ["Basic Elements of the Theory of the Economic Value of Goods"] in these yearbooks, new series, vol. 1, pp. 503f., 534 etc.

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II.
The Point of Controversy

What then is really in dispute between Dietzel and the marginal-value theorists?

Roughly speaking, it can be expressed in very few words: the difference of opinion concerns the explanation of the value of goods reproducible at will and, to be sure, insofar as Dietzel assigns a different position to the influence of costs in this explanation than do the marginal-value theorists.

To what extent a different position? Where does the difference begin and how far does it extend?

He who obtains his information only from Dietzel's polemics would frequently receive an unsatisfactory impression. For as I have already indicated, Dietzel frequently misinterprets the doctrine of the marginal-value theorists. He repeatedly attributes views to them, and to be sure even concerning important points, that are diametrically opposed to their actual and explicitly expressed views. But what is particularly confusing is Dietzel's predilection for running through open doors and, in a polemical tone, confronting the marginal-value theorists with doctrines with which they are not only in agreement but which have been taken precisely from their very own writings, and then challenging them to contradict those doctrines. Under these circumstances, the first and most pressing task is a corrective clarification of what the two sides agree on and what is really in dispute.

[327] One time Dietzel accuses us of being unaware "that for the category of reproducible goods the height of reproduction cost, of the quantity of labor, determines the measure of value."[12] Another time, he declares as our "error" "not to see that for reproducible goods the decisive matter of cost enters."[13] A third time, Dietzel cites our proposition that the value of a good is determined by the importance of the want satisfaction that depends on its possession, and adds:

> The marginal-value theorists stop with this conception, which in itself is unobjectionable. Their error is that they do not "add a further proposition for the category of reproducible goods," namely, the proposition "that their being present spares definite quantities of labor power" and that therefore "the subjective value of replaceable goods conforms to the quantities of labor that are necessary to replace them."[14]

He repeatedly refers, in a polemical tone, to the necessity of supplementing the law of marginal utility by means of a law of cost value.[15] He asks, again

[12]"Werttheorie," p. 576.

[13]Ibid., p. 590.

[14]Pp. 586-87.

[15]Pp. 572, 582.

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in a polemical tone, whether in the drama of value a decisive role should not be assigned to the factor quantity of labor, which, indeed, determines the size of the supply and thereby the "relationship of demand and supply." And he suggests to us, the "new ones," that we seek to reduce that factor to the most modest role, "which may enter upon the economic stage only in exceptional cases."[16] While for reproducible goods the exact and perfect method of measurement according to the height of reproduction cost is allegedly possible, it is supposedly our endeavor to put in circulation even for this category of goods the less exact, imperfect method of valuation according to utility or marginal utility.[17]

Whoever reads these passages, and numerous similar passages, in which Dietzel again and again puts forward the truth and expediency of cost valuation and criticizes us for "denying" or "not seeing" anything whatever that relates to cost valuation, must necessarily come to the conclusion that we marginal-value theorists really had overlooked the law of costs and, on the basis of doctrinaire whim, had ignored the abundance of knowledge that can be obtained for the explanation of value from the relationship between costs and value.

In fact, the very opposite is the case. Whoever has read our writings, even with halfway attention, knows this. [328] However, in order to rule out every doubt and every misunderstanding, I want to make a few explicit declarations:

(1) We too fully recognize the sway of a "law of costs" for goods that are reproducible at will. "There is a law of costs"—I once wrote—"costs exercise an important influence on the value of goods."[18] "That costs of production of goods exercise an important influence on their value is a fact so well verified by experience that it absolutely cannot be doubted."[19] "One is in fact correct, when one says that costs govern value."[20]

(2) We too recognize the necessity of "supplementing" the universal law of marginal utility by means of special provisions that relate to the value of goods reproducible at will and that the substance of these is precisely the law of costs. And we have accomplished this "supplementing" in full detail, both for the field of subjective value and for that of objective value and prices.[21]

(3) We too understand the law of costs in such a way that we ascribe to the height of the costs of production, that is to say, to the value of the means

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[16] P. 582.

[17] P. 606.

[18] "Grundzüge der Theorie des wirtschaftlichen Güterwerts," new series, vol. 13, p. 73.

[19] Ibid. p. 61.

[20] Ibid. p. 71.

[21] "Grundzüge," pp. 61ff., 534ff. *Positive Theorie des Kapitals* (Innsbruck, 1889), pp. 189ff. and esp. pp. 234ff. [The material referred to appears in English translation in Eugen von Böhm-Bawerk, *Capital and Interest*, 3 vols., trans. George D. Huncke and Hans F. Sennholz (South Holland, Ill.: Libertarian Press, 1959), vol. 2, pp. 168-76 and 248-56. Vol. 2, pp. 173-76 are on line at http://www.capitalism.net/excerpts/boehm_q.htm.]

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of production, the status of a cause—though, to be sure only an intermediate cause—in relation to the value of those products to which the law of costs generally applies. "In our present case (that of goods reproducible at will and of higher direct marginal utility), the value of the product must accommodate itself" (to the value of the means of production). "The value of products of higher direct marginal utility . . . comes to them from the side of the means of production."[22]

(4) In connection with this, we too acknowledge that changes in the conditions of producing goods reproducible at will never fail to bring about a change in the value of those goods and, to be sure, even without a change in the supply of finished products necessarily having to take place.[23] To be sure, Dietzel maintains, with special emphasis reinforced by numerous repetitions (Werttheorie, pp. 593, 596), that "according to the marginal-value theorists, no change in value can appear here" and in the case of the same supply but different costs of production "valuation according to marginal utility [must] be absolutely the same." And he also does not fail, with equally great emphasis and equally many [329] repetitions, to add the further assertion that "valuation according to marginal utility is incapable of doing justice to influences on value that operate from the side of the conditions of production."[24] Both pronouncements are proof only of the fact that Dietzel has not made himself better acquainted with the text and spirit of the theory of marginal utility.

(5) Finally, we too recognize the fact—on which Dietzel places such great stress—that in practice the value of goods reproducible at will is usually directly estimated by economizing subjects according to the costs, and we append to this recognition the one condition, which, indeed, Dietzel himself requires, and must require, that the height of the costs is already known to the valuing individuals or is settled for them. "Countless times we already know the value of the cost goods . . . and in all these cases we measure . . . the value of products simply according to their costs."[25] We are a long way from having the intention of putting the use of costs as a standard "out of 'circulation'" or of allowing consideration of costs to "take the stage only in 'exceptional cases.'"

In short, concerning everything that is true and essential in the law of costs—that costs "govern" the value of goods reproducible at will, that we usually

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[22]"Grundzüge," p. 70.

[23]Thus, for example, on one occasion, Wieser says: "Cases of the kind last discussed are conspicuous in that the effect of cost on the value of the products takes place without the quantity of products being affected" (*Der natürliche Wert* [Vienna, 1889], p. 171; [*Natural Value* (1893; New York: Kelley and Millman, 1956), p. 178]).

[24]For example, "Werttheorie," p. 594.

[25]"Grundzüge," p. 71. That Dietzel too requires for the application of the cost measure that the costs are already known, lies in the nature of the subject and, moreover, is often explicitly stressed by him: "As soon as they know the cost of acquisition, they calculate according to cost value ('Wert- und Preistheorie,' p. 688)." "As soon as Robinson knows . . . (p. 688)." "However, as soon . . . [as] its objective cost value is known (p. 696)." "Before he knew the price," "as soon as the price [is] known by X . . ." "Now they come to know . . . (p. 697)," and so on.

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directly value these goods according to cost value, that changes that occur on the side of costs cause changes in value, and the like–we marginal-value theorists have not missed or denied an iota. The one difference–and I even believe that Dietzel would agree with us to a considerable extent, although he is by no means clear concerning how far he agrees with us–the one difference consists of the fact that we believe that with the statement of the law of costs, we have not yet reached the end of the explanation.

The law of costs is no fulcrum on the basis of which the rest of the explanation can be supported, without it itself needing a support. Rather, it stands in the middle of the course of explanation: it explains certain phenomena, but must itself be first further explained on the basis of certain other, more general phenomena. In order to provide the explanation with this necessary conclusion, we marginal-value theorists make an addition. Be it noted, not an addition which would run counter to or detract from the validity of the law of costs, but one which supports it and makes it intelligible. Namely, we supplement the theory of the value [330] of products with a theory of the value of the means of production, or cost goods, whereby we reach the conclusion that this value itself is ultimately once again grounded in marginal utility. As far as we are concerned, therefore, costs apply not as an ultimate cause, but only as an intermediate cause of the value of products–though a very important and widespread one. It is this addition that has brought on Dietzel's opposition and the accusation of "terrible detours" and of a scientific "regress." Dietzel insists, with firmness, that costs are the ultimate cause of the value of goods reproducible at will. I hope that the following investigation will be sufficient to show whether his view or our view is correct, whether our addition in this case was a vice or a virtue.

III.
The Two Variants of the Cost Theory: Their Scylla and Charybdis

The theory that sees in costs the ultimate regulator of the value of goods is taught in two essentially different variants. The difference concerns the nature of that which one calls costs and to which one ascribes determining influence on the value of goods.

In the one variant–whose type is most clearly represented by the socialist labor theory of value–one refers for the explanation of value phenomena to quantities, all of which are given through external, purely technical relationships, and therefore are not in need of further explanation within the science of economics, or at least not within the theory of value. For example, to the quantity of labor, to the number of hours of labor that the production of a good has cost or would cost. Such a theory can be true or it can be false. In any case, however, it is a self-contained theory, a complete theory. It carries the explanation to a point that lies outside of the phenomenon that is to be explained, which is a fulcrum for it. If, for the explanation of the value of a

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good, I can refer to the fact that its production has cost seven hours of labor, I have thereby referred to an independently given fact, which cannot be further complained about or argued with. If I allow myself at all to refer to it for the explanation of the value of goods, the explanation is complete with this reference.

The question is, to be sure, whether I can permit myself to refer to it. Here threatens, as the Scylla of the cost theory, the rocks constituted by the facts. The explanation based on quantities of labor, and every explanation related to it, founders on them. For it is simply factually incorrect that the value of goods reproducible at will is related merely to [331] the quantities of labor to be expended. For example, goods that require equally great quantities of labor but also require different expenditures of time or capital empirically have very unequal value. Or if, in the face of totally unchanged quantities of labor, the wage rates to be paid for that labor rise, so in practice will the value of the goods concerned not fail to rise. I have devoted a thoroughgoing exposition to the critique of this variant of the cost theory in another place[26] and need not dwell further on it here, especially since, happily, full agreement prevails between Dietzel and myself concerning this point.

To be sure, in his first polemic, Dietzel somewhat frequently used expressions and turns of phrase, which if taken literally could also be interpreted as emanations of the pure "labor theory." However, other, opposing statements of Dietzel's, and especially the whole spirit of his theory, led me even at that time to suspect that Dietzel did not intend to advocate the strict labor theory, which today indeed is hardly ever maintained outside of socialist circles. In order to put aside every doubt, I put to him the first of the four questions of my "Zwischenwort." In his answer,[27] Dietzel dissociated himself from the pure labor theory with all desirable clarity, in that he explained that in his opinion it "depends on the height of all costs, which, besides expenditure of quantities of labor, can include other elements. And in determining the height of costs, labor comes into consideration not merely according to its quantity, but also according to its value."

In this comment, the last words are decisive. By referring to the value of the cost goods, Dietzel dissociates himself not only from the labor theory, but from the whole first variant of the cost theory in general. Thus I need not combat this last any further and note only in passing, very briefly, that it embraces, besides the theory of labor quantities, a few other theoretical formulations. Thus, for example, the narrowly disseminated theory that the amount of pain or trouble of labor determines value, and the more widely disseminated, but just so little satisfying view that value is governed by the sum of the pain of labor and deprivation (abstinence) to be expended.

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[26] *Geschichte und Kritik der Kapitalzinstheorien* (Innsbruck, 1884), pp. 403ff. and pp. 427ff. [The English translation appears in Böhm-Bawerk, *Capital and Interest*, vol. 1, pp. 271ff. and 286ff. The reader should see also Böhm-Bawerk's *Karl Marx and the Close of His System* (New York: Augustus M. Kelley, 1949), which was written after the present essay.–Trans.]

[27] "Wert- und Preistheorie," p. 691.

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That comment of Dietzel's directs us rather to the second main variant of the cost theory. This variant is distinguished by the fact that, to be succinct, it conceives costs, which determine the value of goods, as themselves being a value sum. The "height of costs" is the product of the quantity of cost goods expended multiplied by their value. Seven hours' labor when an hour of labor [332] is worth 10 kreuzer represent "costs" that are only half as high as the same seven hours' labor when an hour of labor is worth 20 kreuzer. One does not yet know the costs if one knows only the quantity or number of units of the cost goods consumed, such as the pounds of coal or days of labor used up. In addition, one must know and take into account the value of these things. "Costs" rise and fall in the face of an unchanged number and quantity of cost goods when the value of the cost goods rises or falls. Costs are high not only when and because a large quantity of cost goods must be used up, but also when and because the value of the cost goods is higher. In short, value returns as an element in the costs called upon in the explanation of value.

This variant of the cost theory is obviously at an advantage in one point in comparison with the variant first mentioned, and at a disadvantage in another. Its advantage is that with it one happily avoids the Scylla of the facts; one remains in accord with the facts. When iron rises in price, rails also rise in price, even if for the rest, the technical production relationships of both goods have remained completely unchanged. The first variant, which cannot admit a rise in "real" costs here, collides with such facts, while the second, which indeed finds the value sum of the costs increased, encounters no difficulty.

In consequence, it is obviously just as much at a disadvantage in a second point: the explanation it offers cannot yet be a conclusive one. It explains the value of products on the basis of the value of their means of production. However, how is the value of the means of production themselves to be explained?

Here threatens, as the Charybdis of the cost theory, the circularity in the explanation. Namely, so long as the means of production themselves are goods reproducible at will, it suffices to continue the explanation along the same lines and in the same direction peculiar to the cost theory, namely, in the direction from product to means of production. In this way, for example, one can explain the value of bread on the basis of the value of flour, the value of flour in turn on the basis of the value of grain, the value of grain in turn on the basis of the value of the producers' goods by means of which it was produced. However, when one has continued this explanation through a few stages, one sooner or later necessarily encounters a stage at which it can no longer be continued. Usually, one will very soon come upon a means of production that is not reproducible at will, for example, a raw material that is rare in nature, a patented tool, and the like.

However, if not sooner, then in any case at some point, one encounters the most original and most universal of all means of production, the means of production "labor." How shall one further explain its value? On the basis of

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the costs of production of the good labor? Thus, perhaps on the basis of the value and price of the worker's means of subsistence, bread, meat, clothing, and shoes? However, in that case, we would be in the middle of Charybdis, in the middle of a circular explanation. For according to our variant of the cost theory, one has indeed [333] explained the value of bread, meat, clothing, and shoes in the last analysis on the basis of the value of labor. If we explain the value of labor in turn on the basis of the value of means of subsistence, we are obviously moving in a circle. Totally apart from this, even the supporters of the cost theory themselves will scarcely be inclined to assert that one values labor in the same way and just as directly on the basis of cost value as literal products! Inasmuch as Dietzel in particular has not made this assertion,[28] I can excuse myself from pursuing the cost theory further into this blind alley.

But how should one continue with the explanation otherwise? Here is a crucial turning point. There is no choice but either to completely break away from the path of explanation followed up to now or to continue with it, but turning around in the opposite direction again.

To break away: in that, having arrived at labor, one no longer refers to its value but only to its quantity or to another aspect independent of value, for example, to the amount of trouble or pain of labor. However, following this course, one falls back into the first variant of the cost theory and founders, as we already know, on the Scylla of the facts.

Or to reverse course. That is, to recognize that the value of labor itself is determined from the size of its products, namely through the magnitude of the utility or marginal utility which its products establish, or what is only another means of expressing the same thing, through the value of its products. That way, however, he who began with the principle of explaining the value of products on the basis of the value of their means of production appears to plunge in his turn into the Charybdis of a circular explanation.

What do we marginal-value theorists do now and what does Dietzel do?

We marginal-value theorists have first of all clearly and distinctly recognized that the explanation must turn around.[29] Therefore, we wisely take care not to express the law of costs in a way that would force us in the next moment to undo explanatory steps that we have just taken. We are careful not to maintain that costs are in principle a [334] final or ultimate regulator for any group of goods, because we know that for the allegedly ultimate regulator

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[28]I would gladly have provided an explicit statement from him concerning this. Unfortunately, however, he misunderstood my fourth question, which related to it, and, while I asked him about the subjective valuation of the good labor, he answered me with statements about the formation of wages. Inasmuch as he meanwhile repeated, with renewed emphasis, certain statements about the subjective valuation of the good labor from his earlier essay, I can regard my question as thereby indirectly answered, among other things, as answered in a sense to be discussed immediately.

[29]In my "Grundzüge," pp. 65 f., I have named a few not very clear predecessors in this recognition. Thus, if one wishes, one can also greet our conception of the cost theory, which today is still disputed, as "a good old friend" or as a "double."

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itself we must a moment later again appeal to an explanation based on marginal utility. But instead of placing the law of costs outside or against the law of marginal utility, with which, indeed, we cannot do without in our own explanation of the height of costs, we systematically incorporate it into the universal law of marginal utility. Here I need not elaborate in detail how we accomplish this. Whoever takes the substantial trouble of following the controversy between Dietzel and me will indeed also take the considerably lesser trouble of looking up a few pages about it in one of the writings of the marginal-value theorists before forming a final judgment.[30]

As a result, the basic idea is only briefly indicated here. All those goods and kinds of goods, which can be produced at will from one and the same means of production or cost good–following the practice of Wieser, we call them "production-related"–thereby, on that very basis, enter into a kind of community, within which value has the tendency everywhere to present itself on the same level. That is to say, just as several specimens of the same kind of good, for example, several sacks of the same grain or several hundredweight of the same iron, must have the same value, when and because they can be drawn upon at our pleasure for the same useful services and can be mutually substituted for one another, just so, no difference in value between two goods of different kinds can persist, when and because they can be produced or replaced at our pleasure and in any quantity desired by means of one and the same third good–by means of their common producers' good or cost good. And just as, furthermore, the value of each of several identical sacks of grain is determined according to the law of marginal utility by the utility of the "last," most easily dispensable sack, just so the value of all production-related goods together is determined by the utility of the "last," most easily dispensable product which is brought forth from the common production source, or, as we call it, by the marginal utility of the "marginal product." This provides the measure both for the value of the common cost good as well as, via this last, the value of all other products produced by means of same.[31]

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[30]For example, in my "Grundzüge," pp. 61 ff. and 534 ff., and in the "Positive Theorie des Kapitals," pp. 189 ff. and 234 ff. [The English translation appears in Böhm-Bawerk, *Capital and Interest*, vol. 2, pp. 168-76 and 248-56. Vol. 2, pp. 173-76 are on line at http://www.capitalism.net/excerpts/boehm_q.htm.]

[31]Dietzel once ("Werttheorie," p. 590) objects to us marginal-value theorists that to us it "has frequently not become clear that the *punctum saliens* [leading point] of the valuation method lies in the creation of a value relation between products which belong to *different* kinds of goods." We allegedly bury ourselves in valuations of supplies of goods of the *same* kind and "are all too little concerned with the difficulty of applying this method to the measurement of the value of supplies which consist of goods of *different* kinds."–I confess that I can comprehend this objection only under the assumption that Dietzel has read neither the [335] theory of "production-related goods," which was so carefully worked out by Wieser, nor the discussions relating to the same subject in my writings. Pantaleoni found the expositions of Wieser concerning this point, which Dietzel overlooks, so striking that he formulated a special law, *la legge di Wieser* ["the law of Wieser"]! (*Principii di economia pura*, 1889, p. 221 [*Principles of Pure Economics*].)

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[335] Dietzel himself bears witness to the fact that with our interpretation of the law of costs we arrive neither at errors nor at contradictions of ourselves or of the facts, in that he repeatedly acknowledges that our derivation of the value of goods reproducible at will from the marginal utility of production-related goods is just as correct as his derivation from costs. "For practical purposes, both valuations, if performed correctly, lead to the same result."[32] Whether I calculate according to cost value or use value, the result is the same."[33] And Dietzel calls "unobjectionable" even with respect to goods reproducible at will our proposition that the value of a good "is determined by the importance of the want satisfaction which depends on the possession of it, which would be lost with the loss of it"; thus, is determined by our "marginal utility."[34]

However, what does Dietzel himself do and teach? Everyone who has read the cutting polemic of Dietzel against the marginal-value theorists will expect a correspondingly sharp contrast of his positive theory. Surprisingly, however, this expectation will be disappointed. Above all, Dietzel too realizes and acknowledges that for any ultimate means of production, for example, for labor, the explanation must turn around. It can be carried no further on the side of costs or sacrifice, but must suddenly change to the side of utility or wants. Labor, Dietzel points out,[35] is available only in limited quantity in comparison with demand. It is therefore an economic good and has value; and the height of this value is measured according to the–marginal utility which one can obtain with the unit of labor. Let us allow Dietzel to speak in his own words. He calls labor the "original purchase money," and continues:

> This purchase money is available only in limited "supply." On the basis of this limited supply, Robinson Crusoe must meet his unlimited demand for useful goods. As a consequence of this, every fraction of his labor has "value" for him–for an addition to possible future want satisfaction depends on it. The greater his "supply"of this "original purchase money," the less important the wants for which Robinson is able to provide. The smaller the supply, the more important the wants at which he must break off satisfaction. The greater the supply of labor, the smaller the "marginal utility" of the fraction; the smaller, the greater.[36]

[336] Let us pause here a moment in order to ask: How, in the spirit of this discussion, does the complete explanation of the height of the value of goods reproducible at will appear according to Dietzel? For reasons easy to understand, Dietzel himself does not provide a complete explanation in very great detail. However, by means of the preceding discussions, he has provided us

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[32]"Werttheorie," p. 601.

[33]P. 588.

[34]Ibid., p. 586.

[35]Ibid., p. 577 and repeatedly.

[36]"Werttheorie," p. 583; cf. also pp. 587 and 594.

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with the material to construct it in his spirit, and once (p. 587) he provides it himself, if only in the most extremely concise manner.

According to what was said above, the complete explanation must read: One values goods reproducible at will according to the quantity *and the value*[37] of the labor by means of the application of which they can be replaced and whose application is spared precisely by the fact that they are already present as finished goods. And one estimates the value of the labor spared in turn according to the marginal utility which could otherwise be created by means of it, that is to say, by means of the useful goods producible by it, or, what is identical with this, according to the value of the products that one could produce with it. In this spirit, at the place in which he describes valuation according to cost in the briefest but also most complete way, Dietzel has his Robinson Crusoe say "simply": "This hut spares me 10 hours of labor, is of the same value as the products which I will need in the future and which I can buy from nature with this quantity of labor."[38]

In what then does Dietzel's explanation materially differ from the explanation of the marginal-value theorists? Perhaps Dietzel knows; I do not know. Dietzel explains the value of goods reproducible at will initially on the basis of the quantity and the value of the cost-good labor expended; so do we marginal-value theorists. Dietzel explains the value of the cost-good labor on the basis of its marginal utility; so do we. According to Dietzel, this marginal utility expresses itself in the value of the most dispensable of the useful goods which one could otherwise have produced with the good labor; or, as we say, in the value of its marginal product. This is our opinion too.

In short, where Dietzel completely states his view, he explains the value of goods reproducible at will in exactly the same way, by means of the height of costs based on marginal utility, as we marginal-value theorists do. The difference is only that we marginal-value theorists see the whole necessary course of things from the first, all at once, and express ourselves accordingly, while Dietzel always sees only a portion at a time, and says, stop, after the first portion, which has led him to costs, as if he were already at the goal. He chides the people who travel further "along a terrible detour." But in the end he sees himself too forced to enter the "terrible detour" which leads from the costs of goods reproducible at will to the marginal utility of producers' goods.

And now I ask: under these circumstances, has it been worthwhile [337] to raise a great hue and cry against the marginal-value theorists over the fact that they trace the law of costs back to the law of marginal utility? Was it proper to call it a "caprice" when the marginal-value theorists undertook to put forward in the law of marginal utility a unitary law, which subsumed the law of costs rather than merely stood beside it? And is it really the mark of a so-much-higher scientific standpoint, when one first, with all possible emphasis, declares not marginal utility but costs to be the ultimate cause of the value

[37]Our addendum is according to the explanation which is explicitly present in Dietzel's "Wert- und Preistheorie," p. 691; cf., above, p. 26 [331].

[38]"Werttheorie," p. 587.

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of goods, however then is forced to explain this alleged ultimate cause in turn on the basis of marginal utility, which is allegedly not ultimate?

If it were only a matter of pointing out some injustice to my esteemed opponent, I could confidently conclude my remarks. However, that would be a job only half done, and as a result, fruitless. One easily sees that Dietzel has become inconsistent. However, one sees this all too easily. Everyone must immediately say to himself that a man of Dietzel's sagacity could certainly have avoided exposing himself to the very obvious reproaches of inconsistency and circularity if he had not had good, or at least strong, reasons for it.

These reasons for inconsistency are what one must overcome or clear up, if one wants to have accomplished something in the matter. They exist and operate not only in the case of Dietzel, but in a great part of the public opinion of our science, of which Dietzel is only an individual representative, who is particularly eloquent and combative. It is this public opinion which clings to the cost theory with undeniable power and tenacity, and as often as it has been fought and conquered in the previous course of scientific development, has up to now helped the cost theory achieve a new resurrection every time. Under these circumstances, it would be of little use to show that the cost theory is inconsistent and contradictory in the concrete form in which Dietzel today preaches it, if it were not possible to thoroughly banish the misunderstandings contained in the cost theory, by shedding light on the very last corner of the trains of thought that yesterday drove the classical economists, and today Dietzel, to the construction of it, and tomorrow would again drive someone else to it.

To this end, I must therefore ask further: What reasons or impressions have led Dietzel to his antagonistic attitude toward the theory of marginal utility?

Without doubt, a share of this which is not at all modest, goes to the account of a purely external cause, of which I already had to make repeated mention: to the account of the incomplete knowledge which Dietzel possesses of the theory of marginal utility that he combats. Dietzel has apparently developed a certain schema of the theory of marginal utility following a cursory reading of a part–and perhaps even of a rather modest part–of the literature of marginal utility, and directs his polemics against this self-created schema, [338] unconcerned with whether or not his schema also represents the actual thinking of the marginal-value theorists.

Only in this way can it be explained that Dietzel so often reproaches us, in the most definite tone, for remarks which we in fact have never made, or that he reproaches us for omissions or oversights, while the matters allegedly overlooked or neglected are treated at length and in depth in our writings. Only in this way can a certain especially strange part of his polemic be explained. Namely, Dietzel conspicuously believes he must prove against us precisely that part of his theory which turns into the theory of marginal utility, and reproaches us with ignorance and ignoring truths that precisely we, long before him, developed in great concreteness, and which he has simply copied from us.

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For example, on one occasion it is a matter of the derivation of the value of the original means of production, particularly labor. Dietzel begins with the "awful triviality" that labor is an economic good, inasmuch as it is available to the economic subject only in limited quantity, that the labor which is expended for production of a consumers' good is unavailable for the production of another good that would otherwise be possible, that for that reason one imputes "value" to labor, and so forth ("Werttheorie," p. 578). And he makes the accusation against us (p. 578) that "these trivialities have escaped the new ones." As though Wieser had not devoted a whole long chapter to the proof that, despite all appearance to the contrary, labor is always available in insufficient, limited quantity![39]

Another time (p. 580), Dietzel reproaches us with having "denied" the "necessary relationship between the value of products and the value of producers' or cost goods"–us, we who, to say it once more, have devoted whole chapters to the proof of the necessary relationship between the value of products and the value of producers' or cost goods! And Dietzel ends a long discussion (p. 594) concerning the fact that not only finished products but also labor is valued according to marginal utility, with the following polemical words against us:

> Was it then really so difficult to see that every word that the new ones say about the marginal utility of supplies of products, that is, the concrete effects of labor, can be carried over to the marginal utility of labor, that is, the abstract cause of all supplies of products!

One would like not to trust one's eyes! Can Dietzel really have totally overlooked or totally forgotten that we marginal-value theorists have carried over the theory of marginal utility in the most completely detailed and emphatic way precisely with respect to the valuation and value of the means of production and labor,[40] and that [339] everything whatever that Dietzel himself knows about the valuation of producers' goods according to marginal utility he can know from no one else but from us? And yet another time ("Wert- und Preistheorie," p. 706), Dietzel suggests to me in all seriousness that I had contradicted a series of propositions that in fact are borrowed from our own theory!

That Dietzel, based on such a fundamental misunderstanding of the mutual positions, found somewhat more material for polemics than anyone

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[39] *Ursprung und Hauptgesetze des wirtschaftlichen Wertes*, pp. 51 ff; for example, p. 62: "Labor is . . . because of its too small quantity an economic good." Cf. further, Wieser, *Der natürliche Wert*, pp. 189 ff [*Natural Value*, *op. cit.* pp. 195 ff].

[40] See, for example, my "Grundzüge," pp. 63 ff.; *Positive Theorie des Kapitals*, pp. 234 ff., esp. pp. 243 ff. "The original productive powers of the country also line up according to rank in the most rewarding employments and receive their value and price from the last of these employments" (p. 243). [A somewhat different translation of this sentence can be found in Böhm-Bawerk, *Capital and Interest*, vol. 2, p. 253, where it appears as the second sentence of paragraph two. See also vol. 2, pp. 248-56.]

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else had found is understandable. However, this explains only some of Dietzel's polemics, not all, by far. A major part of Dietzel's objections rests on reasons and impressions that arise from the matter itself. In what follows, I want to investigate and clarify these reasons and impressions as well as I can.

IV.
Why, Admittedly, Practical Estimations of Value Can Often Stop With a Reference to Costs, Never, However, the Theoretical Explanation of Those Estimations

In practice, we stop innumerable times with a valuation based on costs. If one asks me how highly I value a winter coat, that I can buy at any moment at a cost of 40 florins, I will answer without hesitation and without further speculation: at 40 florins. If it were to cost only 35 florins, so I would decide just as quickly, and just as decisively answer: at 35 florins. From this indisputable fact, Dietzel has apparently gotten the impression that the explanation of the marginal-value theorists, which even in these cases comes back to some marginal utility, is not natural or true to nature, but makes "terrible" detours by means of a truly superfluous "*jeu d'esprit spirituel*" ["game of intellectual solitaire"]. What justification does this impression have?

It has no justification. It stems from a confusion between that which individuals do or have to do, if they want to estimate the value of a good in practice, and that which science has to do if it wants to explain the practical valuations themselves.

The fact that under certain very frequently occurring conditions, in practice we value goods according to cost not only directly but also in a certain sense "definitively" (that is to say, that we don't further extend our reflections concerning the matter) is completely right. As I already had occasion to mention once, above, we marginal-value theorists also have in no way allowed this fact to escape us, but have acknowledged it with all explicitness. [340] "Countless times . . . we measure . . . the value of products simply according to their costs."[41]

But when and why do we stop with costs in our practical estimations of value? When we already know the height of the costs on the basis of some cause or source or find them given for us through external circumstances. Then, precisely the height of costs forms as it were a fulcrum for our practical purposes, concerning whose underpinnings we need not investigate. I believe that no difference of opinion exists between Dietzel and me concerning the necessity of this actual prerequisite. "Countless times," I wrote in the place cited above, "we already know the value of the cost goods, without first having to develop it from case to case on the basis of its foundations, and in all these cases"—I continued as above—"we measure the value of products simply according to their costs, in a shorthand as correct as it is expedient." And

[41]"Grundzüge," p. 71; compare, above, p. 24 [329].

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Dietzel is full of statements in which the presence of valuation based on cost is explained by references to the fact that the costs of production or acquisition in question must be known to the valuer. I have already presented a whole collection of such remarks, above, to which I refer here.[42]

Our practical reflections concerning the value of a good reproducible at will, therefore, end with "knowledge" of the height of cost, and to be sure, with full justification. However, can science be allowed to end its explanation of value here? Absolutely not! For the height of costs, which is synonymous with the sum of the values of the cost goods, is indeed itself a value phenomenon, thus a part, and, to be sure, certainly not the most unimportant part, of that which is to be explained. And this explanation appropriate to science cannot in the least be supplied by means of the "knowledge" of the people. An enormous difference exists in general between the knowledge of a fact as a fact, and between the explanation of the fact. Every farmer knows that on so-called "icemen-days" in May, evening frost and relapses into cold frequently occur. However, hardly anybody will take this knowledge of farmers of the fact as a fact, as equivalent to the possession of a scientific explanation of this fact. And everyone would find it more than strange if meteorologists, embarked on a scientific explanation of the icemen phenomenon were to announce that a further explanation was no longer necessary, because farmers already very well knew the fact without this!

Now a difference of exactly the same kind and just as enormous exists, for example, between the knowledge of horse dealers that a horse costs 150 florins in a certain market and a scientific [341] explanation of the height of this price. Or between the knowledge of a producer that the manufacture of a certain good costs 18 florins, namely, 12 days of labor at 1 florin 50 kreuzer each, and a scientific explanation of why a day's labor is worth 1 florin 50 kreuzer and thus that the whole amount of cost has a value of 18 florins. The height of price or cost may at any rate have the power of an undoubted given fact for the practical valuations of the individual. However, for the explanatory tasks of science, it is nothing but a fact that is not yet explained and therefore a fact that is first to be explained. It is not the solution of the value problem, but itself a part of this problem, and certainly not the easiest part.

The act of valuing and theoretically explaining valuations are, therefore, in every case, two different things. I certainly do not want to maintain that Dietzel has expressly confused these two different things, but he has just as little expressly made clear their difference in its full significance. And as a result, he is continually misled by ideas and premises which belong to the one area, to suddenly and unawares jump to ideas and conclusions which belong to the other area. His polemics offer countless instances of this. The most frequent example is provided by his oft-repeated polemics concerning the immediacy and "finality" of practical valuations based on cost versus the superfluousness and reprehensibleness of "detours" in the explanation of those valuations.

[42]See above, p. 24, n. 25 [329, n. 2].

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One time this thought is even clothed in the form of an explicit principle, when Dietzel says, "that, because the practice necessarily imposes using calculation according to cost value as soon as possible, theory should as directly as possible lead to it."[43]

Especially characteristic in this regard, however, are the numerous remarks of Dietzel's which refer to the application of "costs" as the standard of valuation. Dietzel does not tire of praising the special advantages which costs display as the standard of valuation in comparison with marginal utility. The cost standard is "more convenient," "more precise," "more exact," "more complete." In comparison with vague fluctuating valuation according to marginal utility, valuation according to cost signifies an "enormous advance." The concrete utilities which goods provide are commensurable only with difficulty; the quantities of labor or cost which will be necessary for their reproduction are easily commensurable,[44] and so forth.

There would be little or nothing to object against this if Dietzel would not always offer these glorifications of the cost standard in a polemical tone against the marginal-value theorists and combine them with the insinuation that the theory of [342] marginal utility somehow wished to depose that excellent standard, to "deny" it its proper "domain," and "place in competition" the "more unsatisfactory, inferior method" of valuation according to marginal utility even for the category of goods reproducible at will, for which the more satisfactory method of cost valuation has long been present ("Werttheorie," p. 606). In other words, Dietzel presents the matter as though in the spirit of our theory, people would have to apply the unsatisfactory method of marginal valuation even in relation to goods reproducible at will, instead of the convenient and exact method of valuation according to cost.

That is a major misunderstanding of our view, which for its part in turn is rooted in the fact that Dietzel confuses two things that we marginal-value theorists take care precisely not to confuse: namely, the carrying out of practical valuation and the theoretical explanation of that valuation. We have no intention of claiming any lesser scope for the practical application of the exact cost standard than does Dietzel. Wherever people already "know" the amount of cost—and where they do not know it, they hardly continue to use cost valuation even according to Dietzel—then according to our view too, they simply apply the certainly more convenient and more exact cost standard, without racking their brains over the further derivation of the value of the cost goods themselves from any marginal utility. However, in order for the amount of cost to be known to them in terms of a definite value figure, it must previously be fixed at a definite height by means of other forces and events—which for the most part are of a social-economic nature. And, of course, it is no less incumbent on science to provide the explanation of that further branch of value formation which goes beyond the limited field of vision of the individual, as the

[43]"Wert- und Preistheorie," p. 689.

[44]"Werttheorie," p. 595; similarly, often.

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explanation of the branch that lies within this field of vision. When theory continues the explanation of the value of the cost goods themselves, then, to be sure, it comes in the last analysis to marginal utility as the cause.

The inadequacy of theoretical explanation on the basis of cost or the difficulty of acquisition appears especially great, I believe, when one–against which practice in itself I have no objection–conceives with Scharling[45] and Dietzel[46] not merely the actual costs of production but also the costs of acquisition by means of exchange as a cost phenomenon. These "purchase-costs" directly form the basis–as far as they are already known–for the subjective valuation of the article by the single individuals who have to do with this article, [343] and Dietzel[47] gives himself a very superfluous task, when he believes he first has to prove this against me.

However, it nevertheless seems to me crystal clear, first, that in this case the height of the cost of acquisition, that is, the height of the market price, itself requires a further explanation, and, second, that in this explanation of the height of the price, one may *not* call upon those cost valuations of individuals if one does not want to make oneself guilty of a totally enormous circularity. Why do people value a winter coat at 40 florins? Because it "costs" that much on the market. And why does it cost that much on the market? Whoever here wants to answer again simply: because people value the winter coat at 40 florins, and in so doing has in mind the same valuations which rest on the "acquisition cost" of 40 florins, would fundamentally say nothing other than: the winter coat costs 40 florins because it costs 40 florins! Or he would explain the *coming into being* of the price on the basis of what the price *had become*.

Dietzel himself, of course, is discerning enough to see that totally obvious circularity of reasoning for what it is, and to avoid it. He is able to do it, however, only at the price that precisely at the most decisive point he abstains from bringing his cost theory to bear.

It is worth the effort to follow somewhat more precisely Dietzel's line of thought here, which is not without strange twists and turns. Dietzel is in agreement with us marginal-value theorists concerning the fact that one must first explain market prices on the basis of the subjective valuations of the goods by the parties in the market.[48] Now, one should expect that Dietzel, who otherwise always loves to present costs with such great emphasis as the decisive basis of valuations, would also declare here the subjective valuations of the parties in the market to be simply cost valuations. However, in no way

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[45]"Werttheorie und Wertgesetz" in these yearbooks, new series, vol. 16, pp. 417 ff., then 513ff., passim.

[46]"In the case of merchandise purchasable at will, the cost that provides the standard for the subjective valuation of those ready to buy is based on the sum of money to be expended in the purchase" ("Wert- und Preistheorie," p. 691).

[47]"Werttheorie," pp. 602f.

[48]"Wert- und Preistheorie," p. 696

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does he do this. Rather, he first finds that one must make a distinction between the buyers and sellers. The decisive valuations of the first are in general directly based not on costs but on utility—"utility valuations."[49] The valuations of the sellers, however, are based, to be sure, "directly" on the costs of production. However, "once the good to be exchanged has been brought to market, the *utility valuation* takes the place of the cost valuation (even in their case) *for the duration of the market transaction.*"[50]

One should note carefully what this means. It means, in other words: in the hour of decision, in the hour in which valuation is to have a really practical importance for action, all parties, buyers and sellers, even according to Dietzel, put their cost valuations, lauded as so endlessly practical, [344] out of sight and allow themselves to be guided exclusively by utility valuations, the valuations so very much scorned by Dietzel as inexact, unsatisfactory, and not at all capable of a real measurement! Only when everything has been decided, when the price that has emerged as the result of the interplay of utility valuations as a ready-made price that is already "known," do people again dredge up cost valuation, which was carefully put aside earlier, and in connection with which, in some measure, they now can no longer be taken at their word, and allow it to "finally triumph."

> A number of buyers appear on the market with the desire for a definite exchangeable good. Each has a subjective *utility valuation* of the good that differs from that of all other buyers. This utility valuation is the direct valuation. *As soon, however, as the price* at which the good is for sale, its objective cost value, *is known, cost valuation finally triumphs.*[51]

Who does not feel himself reminded in this of stout Falstaff, of how he carefully played dead during the battle, but after the battle boasted of his triumph over "Hotspur," killed by someone else. [This appears to be a reference to Shakespeare's play *Henry V*, part 1, act 5, scene 4—Trans.]

Now, however many abstruse phrases and embellishments Dietzel may add here, one fact still cannot be concealed: namely, that in the explanation of the formation of prices, Dietzel himself cannot use the cost valuations of the prospective buyers, which rest on "the sums of money to be laid out in purchase," and is forced to fall back on utility valuations. However, that is precisely the point on which everything in our controversy depends, because, indeed, it was actually for its sake that the whole controversy was embarked upon by Dietzel. For what distinguishes our theory, the theory of marginal utility, from the customary cost theory is, indeed, at bottom, the single proposition, which, to be sure is decisive, that for us the explanation of value on the

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[49]"Only the subjective valuation of the seller rests directly on the costs of production, that of the buyer, on the other hand, on utility" . . . "this utility valuation (of the buyer) is the direct one" ("Wert- und Preistheorie," p. 696).

[50]Ibid, p. 698.

[51]"Wert- und Preistheorie," p. 696

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basis of costs is no final explanation, but that the "height of the costs"—be it actual "production costs" or "acquisition costs" presenting themselves in the market price—itself constitutes a value phenomenon in need of explanation. And that explanation makes necessary going back to a primary valuation according to utility or marginal utility.

Our opinion, therefore, to go back to what was said previously, is in no way that those people who value goods reproducible at will always, or even most of the time, themselves value them according to marginal utility instead of according to cost. Rather our opinion is that the cost valuations actually taking place, in order to be possible, presuppose the existence of other, preceding valuations. These preceding valuations emanate either from the same or, more often, other people; refer for the most part to other goods (the cost goods); and are carried out according to the measure of marginal utility. And, finally, our opinion is that [345] these other valuations made according to marginal utility must be incorporated into the realm of scientific explanation, if science is to explain the whole phenomenon of value formation and not an out-of-context portion.

Usually, I say, these other valuations emanate from people other than those who directly value goods reproducible at will according to their costs. This is always the case, for example, when our cost valuation is based on a purchase price. When an employer values his goods which have cost him 12 days of labor, at 18 florins, that is to say, 12 days' wages at 1½ florins per day, a vast number of valuations by producers, and an even greater number of valuations by consumers, have played their part in the determination of the value of a day's labor at 1½ florins, as I have more precisely explained in my *Positive Theorie des Kapitals*.[52]

A Robinson Crusoe on the other hand will, of course, also always undertake valuation according to cost, which proceeds from the valuation of cost goods, which in turn finally leads to some marginal utility or other, that is to say, to a valuation he himself must have made on a previous occasion and which he still "knows." In any case, it appears to me that Dietzel has no entirely appropriate view concerning the way in which this "inner economic" completion of cost valuation takes place. Since Dietzel, at this point in his explanation of value formation,[53] lays special stress on the case of Robinson Crusoe and expressly asks me to apply my critique to it, I must say a few words about the matter.

V.
Remarks Concerning Robinson Crusoe and Concerning Caprices

Dietzel allows his Robinson ("Werttheorie," pp. 584ff.) to project a scale of value of the goods in his possession reproducible at will by means of his labor.

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[52]Pp. 236ff. [The English translation appears in Böhm-Bawerk, *Capital and Interest*, vol. 2, pp. 249ff.]

[53]"Wert- und Preistheorie," pp. 685f., 706.

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If his hut is reproducible in 10 hours, his net also in 10 hours, his bow in 8 hours, and his food supply in 5 hours, "so will Robinson, if he understands at all how to calculate economically, calculate the value of these goods with the numbers 10, 10, 8, 5." I am completely in agreement!

How does Dietzel have Robinson arrive at this estimation? Robinson must say to himself that, if he had not already had the hut, or if he were to lose it—for example, because of a fire—he would have to employ 10 hours of his working time on its construction and, of course, would have to withdraw those same 10 labor-hours from the production of other useful goods that he could otherwise produce. On the possession of his hut, therefore, actually depends "the total of the want satisfaction" which would be the effect of the [346] employment of 10 hours of labor directed to the production of other useful goods. On the other hand, of course, on the possession of the food supply, that is reproducible in 5 hours, depends in entirely the same way only the benefit of half the quantity of other useful goods, namely, of as many useful goods as Robinson could otherwise produce in 5 labor-hours. Robinson must therefore say to himself, "If I lose the former (the hut), I lose double the quantity of need-satisfaction as I do if I lose the latter (the food)."

This statement too is completely correct and also completely in the spirit of the theory of marginal utility. For the quantity of want satisfaction that depends on labor itself, through the agency of other useful goods to be produced by means of it, represents indeed—as Dietzel himself also repeatedly expresses it (for example, pp. 594, 595)—nothing other than the marginal utility of labor.

Now, however, Dietzel posits an interesting nuance, through which he evidently means to avoid the last of the consequences of the theory of marginal utility that he finds disagreeable—valuation according to intensities of feeling. Namely, Robinson Crusoe to be sure can make clear to himself—Dietzel believes—which concrete wants he would satisfy through an alternative application of the 10 and 5 hours of labor in question. In this case a fully informed valuation according to utility or marginal utility would be present. He need not make this expressly clear, however. He can also calculate *abstractly*, "with quantities of the universal producers' good, the original purchase-money, labor," which is "the abstract cause of that (dependent) future want satisfaction." He can casually reason as follows: if the hut is reproducible in 10 hours, and the food supply in 5 hours, the presence of the former spares me "double the quantity of abstract useful labor as the presence of the latter," with the further result that double the quantity of need-satisfaction depends on the presence of the former as on the presence of the latter. Therefore the value of the hut must be exactly twice as great as the value of the food.

Here apparently is a very ingenious attempt to eliminate from the calculation of value, which cannot avoid *reference* to marginal utility, at least the *determination* of marginal utility. Marginal utility is, so to speak, brought into the calculation like an x that is not further calculated. Even if I don't know, or don't want to take the trouble, to determine how large x is, it is still certain that $2x$ is twice as much as x, and that $4x$ is again twice as much as $2x$. And

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everywhere that such knowledge suffices, the determination of x is in fact dispensable.

Everywhere, that such knowledge suffices. This is the point where the critique of Dietzel's construction has to start. Namely, one must not lose sight of the fact that by the method [347] described by Dietzel, one does not at all arrive at a real valuation, namely at the formation of a judgment concerning the magnitude of the importance for well-being of the goods compared. One learns to be sure, that the hut counts twice as much as the food supply for well-being. But, one does not learn concerning any of these goods that are allegedly "valued" according to their value, whether they count absolutely for much or for little, and still less how they count for our well-being. It is exactly as if two pieces of cloth or canvas of unknown length were to be measured merely in comparison with one another, and the result thereby achieved that the one piece turns out to be precisely one and a half times as long as the other. In that case, if one really investigates no further and learns no more than this, the absolute length of the two pieces might just as well amount to 1/2 and 3/4 meters, or 4 and 6 meters, or 20 and 30 meters.

Now, there are certainly particular purposes, for which even knowledge so limited and imperfect can be sufficient. And among these purposes would belong the construction of the comparative scale, emphasized by Dietzel in his discussions, between all goods reproducible at will in Robinson Crusoe's possession. However–and this, it seems to me, Dietzel has not made sufficiently clear to himself–such a scale itself is of very little use in economic practice. It can be applied only if the circumstances under which an economic decision is to be made are such that only the choice between two goods reproducible at will is involved and nothing else whatever. Seldom, however, are practical circumstances so constituted, especially for a Robinson Crusoe, who totally lacks the most frequent opportunity for a comparison of two goods–exchange. The scale fails as soon as, for example, Robinson Crusoe has to compare a good reproducible at will with a good that is not reproducible at will, say, his hut with the single, European coat on his island that he managed to rescue. In such a case, Robinson Crusoe must value both goods according to marginal utility–not merely the coat, which is not reproducible, but also the hut, which is reproducible at will. This is something which Dietzel seems not to realize or not sufficiently to realize. For what is required for the comparison of the value of two goods, as Dietzel once very correctly observed, is a "common denominator." Here labor can no longer be this common denominator. On the contrary, to be able to compare the hut with the coat, which latter must undoubtedly be valued according to marginal utility,[54] [348]

[54]Dietzel to be sure has expressly explained that he never for a moment doubted the correctness of the marginal utility theory for scarce goods. However, he nevertheless used the above occasion ("Werttheorie," pp. 584 f.), in order to bring up a few somewhat derisive observations concerning the embarrassment in which Robinson would find himself if he, "swearing on the words of the masters of marginal utility," wanted to value his coat according to marginal utility. For how, for example, should he imagine the last of the want

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Robinson Crusoe must obviously first value the hut too according to marginal utility. That is to say, he must go beyond valuation according to costs or abstract labor hours by means of calculation of the *x*, by means of enlisting the marginal utility of labor itself. This supplementation, be it noted, will be neither especially difficult nor especially complicated. On the contrary, Robinson will probably figure out his once-and-for-all judgment concerning the absolute importance of what he can accomplish for his well-being with the unit of his purchase money, the labor hour or the labor day, just as quickly as we social beings have long ago once and for all done this for the monetary unit—the guilder, the mark, the crown, the penny. On the individual, practical occasions, on which we then come to marks, pennys, or man-hours in our value calculations, we already "know" the value of these units and no longer need first derive it from marginal utility from case to case. However, for that reason it remains no less true that all these valuations are rooted in a valuation actually consummated according to marginal utility today or long ago.

No less insufficient, furthermore, is unspecified valuation according to "abstract utility" in those numerous cases in which Robinson has to compare a good not with another good but with wants, for example, when it is a question of the economic decision to consume a good reproducible at will for a specific purpose. Let us imagine Robinson has made a number of arrows with an expenditure of two hours of labor and would gladly like to shoot them for his amusement or target practice or at small birds flying by. Can he permit himself such use of them?

The answer to this question will obviously be very different depending on whether the marginal utility of two hours of labor ranks absolutely high or low. If it ranks high, if for example, in the first days after landing on his island, Robinson must first take care of the most necessary arrangements, which he would have to do without if he devoted his time to archery and target practice,

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satisfactions or the marginal utility otherwise secured by means of the coat? It's not a question of the "last" want satisfaction or the marginal utility, but simply a question of the importance of the dependent want, namely, of the need for clothing or the "utility" of the coat. If Dietzel had made himself somewhat more familiar with the theory of marginal utility, [348] he might have spared himself this polemic too, as well as so many others. For the marginal-value theorists have explained with all desirable clarity and in full detail that in cases of single specimens, marginal utility is identical with the utility of these single specimens ("Grundzüge," pp. 31, 37), and that in the case of durable goods, such as the coat, the dependent utility or marginal utility embraces not merely a single want satisfaction but a whole series of them ("Grundzüge," pp. 33f.). According to our theory too, therefore, Robinson doesn't have merely some single want satisfaction to consider, but rather the whole utility of the coat. After all—something which Dietzel seems to have completely overlooked, even though the marginal-value theorists have expressed it very clearly (for example, "Grundzüge," pp . 20 ff., Wieser, *Ursprung und Hauptgesetze*, pp. 121ff., 126ff., *Der natürliche Wert*, pp. 21, 23ff. [*Natural Value, op. cit.*, pp. 21 ff., pp. 24 ff.])—the primary proposition of their theory is that the value of goods is determined by the importance of the wants dependent on them. The concept and name marginal utility only come into play in the more precise explanation of which among several wants under consideration is the sought after dependent want. Of course, this more precise explanation is not necessary when only a single want or a single series of wants is in question.

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[349] the answer of course will be in the negative. On the other hand, it will be in the affirmative, if Robinson has so far provided for all essential wants that he would otherwise have nothing to which to apply two available hours of labor that was more urgent or important than resort to shooting practice.

It is obvious, therefore, that no useable guidance whatever has been gained with "abstract" cost valuation, with the judgment that the arrows cost two hours of labor. It will only become useable in the moment when Robinson, by means of a further judgment, makes clear to himself how much the two hours of labor themselves mean for him in the prevailing circumstances. In other words, when he supplements the cost valuation by means of a positive valuation of the marginal utility of the cost good labor.

That method of valuation that Dietzel believes he can present as typical is, therefore, as we see, not typical but can be applied only under very special, casuistic circumstances, and on a very limited number of occasions: namely, when it is a question of the comparison of the value of several goods reproducible at will *with one another*. On all other, vastly more numerous occasions in Robinson's economic practice, even Robinson must go back to marginal utility.

No one knows better than the marginal-value theorists themselves[55] that, as Dietzel complains,[56] little objective arithmetical exactness and much caprice is present in the weighing of marginal utility. However, the theorist cannot make the practice better than it actually is. He can neither deny nor prevent the fact that in the last analysis people make what they consider to serve "their well-being" the guiding star of their economic actions. And he can just as little hinder or deny that people, according to their inclination and mood, often consider very strange things to serve "their well-being." Such capricious aberrations of passion, of blind indulgence, of thoughtlessness, of weakness of will, are indeed the source from which thousands upon thousands of foolish and uneconomic actions flow, which every time are set in motion by equally foolish and abortive valuations concerning means and ends. If, however, as is absolutely undeniable, the power of subjective impressions and often of caprices is an element of economic practice, so must it also be an element of a theory that is really true to the facts. As I once stated on another occasion:

> A correct calculation, an inexact calculation, a false calculation, of a gain in well-being leads respectively to a correct, an inexact, or a false valuation, as indeed countless of them appear in economic life. The false calculation, however, serves just as much [350] in the correct explanation of the false valuation as correct calculations serve in the correct explanation of correct valuations.

I ask, moreover–and here we will take leave of Robinson and return to our modern economy–where do the exact cost figures originate which provide the

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[55]Cf., for example, my "Grundzüge," pp. 50f.

[56]"Werttheorie," p. 585.

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basis of our "perfect" and "exact" valuations according to cost? They themselves are nothing other than a result of "caprices"! Dietzel himself indeed understands his law of costs in such a way that the highest costs expended in providing for the given demand are decisive for value and price.[57] Now what decides which costs are the highest to be expended? Indeed, the state of demand! If, for example, 1 million hundredweight of a good can be produced at a cost of 10 florins per hundredweight, an eleventh hundred thousand only at 10 florins 50 kreuzer per hundredweight, a twelfth hundred thousand, however, only at 11 florins per hundredweight, so the highest necessary cost will amount to10 florins if, to be sure, on the one hand a million buyers are found who are willing to pay 10 florins for a hundredweight, and on the other hand not still more than a million people are found who would be willing to pay 10 florins 50 kreuzer. If this last were the case, the decisive cost would not amount to 10 florins but to 10 florins 50 kreuzer. The governing cost figure, therefore, depends–this is clear and admitted–on the state of demand. However, on what does this in turn depend? There is no doubt concerning this too, and Dietzel himself states that it depends on the "use valuation" that the buyer places on the good on the one hand, and on his money on the other.[58] On the same use valuation, therefore, on the same "marginal utility" which, as Dietzel in a different place says,[59] rises and falls according to "caprice" and opinion, which "has to pass through all the difficulties of feeling," and which Dietzel considers to be such a badly useable standard that he exclaims with doubt and irony: "Is that really an economic proportioning of value?"

"Caprices," therefore, cannot be eliminated from our valuations; nor from "exact" cost valuations. The difference is only this: Where we directly value according to marginal utility, we base our valuation on our own "caprices." Where we value "exactly," according to costs, we base it on other people's caprices;[60] on the result of the caprices of those hundreds, thousands, or millions of buyers whose demand fixes a definite cost figure as the "highest necessary." It is immediately to be admitted that such a result of caprices is much more stable than the individual caprice. According to the "law of large [351] numbers," precisely here a number of opposite individual deviations can mutually compensate for one another, so that the overall outcome changes little or not at all, even though it has greatly changed for a single individual.[61]

However, I would like to stress something that Dietzel again seems to me not to have considered, or not sufficiently considered: this kind of relative

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[57]"Werttheorie," p. 592, "Wert- and Preistheorie," pp. 702ff.

[58]"Wert- and Preistheorie," p. 699.

[59]"Werttheorie," p. 595.

[60]Except, of course, in the cases of production in the home, which are rare in the present day.

[61]Wieser, *Ursprung and Hauptgesetze*, p. 160.

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fixing of our basis of valuation is not peculiar to goods reproducible at will, but takes place in a wide domain, even in the case of goods that are scarce. Namely, in the case of those scarce goods, which, to be sure, relatively, in relation to the demand, are scarce, but nevertheless, absolutely, are present in rather large quantity and accordingly possess a rather extensive market. Precious stones of a not-unusual size and beauty, abundant old coins, stamps, books, and the like have a very definite and firm value in their respective "markets," which provides the individual with precisely as firm and exact a support for his valuations as the market price and cost of production do, say, for a hat or coat reproducible at will. Indeed, even more!

Even in relation to goods reproducible at will in the long run, such as grain, alcohol, coffee, hops, and the like, we perform our valuations, all most exact and precise to the farthing or the penny, not on the basis of standard costs of production, but on the basis of financial-page quotations of momentary market prices, which last are themselves determined in turn by the momentary relationship of "want" and "coverage" or "supply," whose determining power Dietzel estimates so lowly. When one sees, for example, how uniformly and precisely all people who deal with wheat—which in the interval between two harvests is a "good temporarily no longer reproducible at will"—value a hundredweight at 8 florins 55 kreuzer in a definite week, no more and no less, so one will be inspired to a few doubts concerning Dietzel's pronouncement that valuation according to utility or marginal utility, that is to say, value determination by means of supply and demand based on it, which is the only method applicable for such goods, is in all cases "the far less exact method of estimation of economic value leading only to uncertain results."[62]

But what follows from all this? It follows that whatever opinion Dietzel should attach to his polemic against capricious valuations according to marginal utility, he in no way proves anything against our theory or in favor of his theory. If he should be of the opinion that cost valuations are entirely free of influence by caprices, he is positively wrong. For in the determination of the "governing height of costs"—and, which I have not at all pointed out here, but easily could point out, in the valuation of the original cost goods themselves—caprices and subjective [352] feelings are decisive. If, however, Dietzel is content to point out that in the case of cost valuation the individual uses a different basis than his own subjective feeling, he is entirely right, but first, says nothing that the marginal-value theorists have not already said, and second, says nothing that would be unique to goods reproducible at will and would justify a dualistic treatment of goods reproducible at will and goods not reproducible at will. For, as explained, such an intermediate basis of subjective valuations accessible to numerical determination frequently also exists in the case of goods that are scarce.

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[62]"Werttheorie," p. 606.

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VI.
Which Is "More Ultimate," Costs or Marginal Utility?

I believe that in Dietzel's case, still another idea, whose fundamental tenability we have to examine, has cooperated in the formation of the impression that costs are the ultimate grounds of the determination of value, more ultimate than marginal utility.

Namely, the height of marginal utility is in no way an ultimate, causeless fact, but, as we marginal-value theorists point out, is determined by means of the prevailing relationship of demand and supply. And the size of the supply is in turn, as the marginal-value theorists likewise point out with all requisite definiteness and emphasis, in very large part determined by the state of the conditions of production, by the difficulty of attainment, or, as one is accustomed to say in brief, by the costs of production.[63] Consequently—so it seems—since they do indeed help to determine marginal utility itself, costs are a more primary or more ultimate basis of value than marginal utility, which is influenced by them.

This argument, to which Dietzel repeatedly alludes,[64] is at first sight so striking that I fully understand that theorists who do not observe with full precision could consider and believe the matter fully decided on this basis alone. That they could do so despite all the difficulties—admittedly also not clearly seen by them—which [353] arise against the conception of costs as the "ultimate regulator of value" yet still are easier to combat than the flagrant fact that costs are a basis of marginal utility and therefore a deeper determinant of value than marginal utility.

If, nevertheless, the reader has the kindness to apply a somewhat more subtle attentiveness to the matter, the argument will soon lose its remarkable power.

Above all, one must become clear in which sense it is appropriate at all to name *one* single circumstance—whether it be "marginal utility" or "costs"—as the "ultimate" or "final regulator" of value. Such a pronouncement can never mean that one literally would name the very last link in the chain of causes and effects that leads to the value of goods. Rather it is obvious that "marginal utility" as well as "costs" are and can be only intermediate members of that causal chain; intermediate members which themselves are determined by

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[63]With all emphasis and systematic clarity, I have designated costs of production as an especially important determinant of the "quantity of disposable goods" or of supply. "Grundzüge," pp. 521, 532, and repeatedly. This recognition has never been "inconvenient" for me, as Dietzel imputes to us marginal-value theorists ("Werttheorie," p. 598), nor have I attempted to "quickly free myself of it"!

[64]For example, "Werttheorie," p. 597, where Dietzel quotes a sentence from Jevons according to which labor influences the supply and the supply in turn influences the degree of utility and thus value, and then adds the remark: "I can only read out of these sentences that labor, as far as it determines the size of the supply, is the primary cause of the magnitude of value." Similarly, ibid., p. 598 and repeatedly.

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means of various circumstances lying still further back. Marginal utility, for example, as just said, is determined by the relationship between demand and supply. Demand in turn is determined by a variety of factors of physiological, moral, cultural, historical nature. Supply is determined by facts of nature, of technology, intellectual development, social organization, legal and property relationships, and so forth.

Entirely analogously, however, "costs" too are in no way an ultimate fact, but are for their part further determined by, for example, among other things, natural richness in the conditions of production, the fruitfulness of the land and so forth, and by the state of technology. These in turn are determined by the degree of intellectual development, the magnitude of the producers' capacity for work and desire for work. These in their turn are determined partly by natural ability, partly by education and training. These in their still further turn are determined by social and managerial organization, by the state of the general and professional educational system, and so forth, almost without end.

When, in contrast, by means of a so-called law of value, one designates *one* circumstance as the basis of value, that can only mean that one chooses an especially important intermediate member of the almost endless causal chain that leads to the value of goods as the final effect. Namely, that intermediate member in which the effect of all the manifold actual determining causes lying still further back finally combine as in the focal point of a lens. Applied to the case of marginal utility, this means that the magnitude of the value of a good is determined–if our view is correct–first by the importance of the "dependent want," which in turn is determined as the "last still covered want," or as the "marginal utility." In this we have the effect of all of the complex circumstances that indirectly influence value–taste, fashion, conditions of production, and so on and so forth–finally all together in unison: all these and a thousand other [354] circumstances influence value in that they first influence marginal utility. If, however, we go another step back, we can no longer designate one cause of value but must designate at least two–demand and supply–and if we go still further back, perhaps 10, 20, or a 100 cooperating causes.

Therefore, from the fact that marginal utility itself, after all, has causes that lie further back, nothing whatever follows against the justification of explaining marginal utility as the governing cause of the value of goods, in the way we do. Rather, the question that lies in dispute between Dietzel and me concerns merely the following point. In the chain of explanation, which leads from a thousand concrete, indirect causes to the value of goods, do "costs" lie on this side or the other side of the intermediate member "marginal utility"?

In asking this question, we must avoid an ambiguity that easily attaches to the word "costs" and which Dietzel seems to me not entirely to have avoided. Namely, what do we want to understand here by "costs"? Merely *the technical conditions of production* or rather *the value sum* which the producers goods to be expended represent? The production of a jacket costs, for example, 2 meters of material and 7 hours of labor, and a meter of material is

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worth 5 florins and an hour of labor is worth 20 kreuzer. Now do we want in that question concerning the explanation of the value of the jacket to refer merely to the technical fact that its production costs 2 meters of material and 7 hours of labor, or also to the further fact a meter of material is worth 5 florins, and an hour of labor, 20 kreuzer, and thus the whole production expenditure is worth 11 florins 40 kreuzer?

The answer will come out precisely the opposite according to whether we pose the question in the one sense or in the other. If we refer to the *value* of the cost goods, this, of course, will admittedly be determined by the marginal utility of the cost goods. "Costs" in this sense, therefore, on principle, cannot be used in the explanation of marginal utility, for they themselves must first be explained on the basis of the latter. In the whole chain of explanation, their place is between the value of products and marginal utility, not before the latter. They are *less* "ultimate" than it.

If, however, we want to refer only to the technical facts of production, then it is entirely correct that these help to determine marginal utility. For example, the less the material and labor that the production of a jacket costs, the more jackets, of course, can one produce with the means of production available. Thus the more completely can the need for clothing be satisfied. And thus, other things being equal, the lower will be the marginal utility of a jacket. The technical conditions of production are, therefore, to be sure a cause of the value of goods lying further back, a "more ultimate" cause, than marginal utility.

[355] However, one may not ignore the fact that these technical conditions of production are simply not the "costs" that function as a regulator of value. As we already know and as Dietzel himself expressly admitted concerning my inquiry, the value of goods is simply not regulated by means of technical production relationships or by means of technical production expenditure—for example, by means of the quantities of labor or raw material to be expended—but depends on the value sum of the production expense.[65] The technical side of production is in and of itself by no means a complete, self-sufficient regulator of value but only a single, secondary determinant of value, requiring other cooperating determinants to complete the determination of value, for example, the state of demand. In the face of the same technical outlay the value of a product can indeed be extraordinarily different, depending on the demand for the product and also for the cost goods to be expended, for the marginal utility and value of the latter is accordingly different.

What follows from this for our question? If one applies it to costs in the sense in which they could constitute a complete regulator of value, that is, in the sense of costs as a value sum, they appear as less ultimate than marginal utility. If, on the other hand, one applies the question to the technical production outlay alone—which, to be sure, lies further back in the chain of explanation than marginal utility—then this is again not the "regulator of value" to

[65]See above, p. 26 [331].

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which one refers in the law of costs. Therefore, in no case are those costs that Dietzel has governing value in his law of costs more ultimate than marginal utility.

However, where does the so-alluring contrary appearance, of which I spoke at the beginning of the section, come from? After the discussions that have been given, that is very easy to get to the bottom of. It comes simply from a very seductive dialectical confusion of the two meanings of the word "costs." Namely, first in connection with this term one thinks only of the technical conditions of production and gains for it the entirely correct impression that it is an elementary fact, a more ultimate fact than marginal utility. And then, unobserved, one slips in the other meaning–costs as a value sum–and erroneously claims the ultimateness certainly due the technical conditions of production, for costs the "regulator of value."

I believe that Dietzel too has succumbed to this, as I have said, very seductive dialectical illusion. He repeatedly reproaches us marginal-value theorists with the *peccatum originis* [original sin] ("Wert- und Preistheorie," p. 686, note 4) that in the development of our theory we "always think only of finished products, never of the conditions of production," and that we calculate with *given supplies* of products. [356] For one really knowledgeable in our theory, I do not first need to refute this reproach, which, incidentally, Zuckerhandel has already rejected.[66] For my part, I want merely to append an observation to it. Namely, is not, on the contrary, a fatal *peccatum originis* present in Dietzel? The older dogma was fond of conceiving of "costs" as a given magnitude fixed by the prevailing conditions of production technology and the like and therefore not to be explained further. In other words, it adhered to what we have designated above as the first variant of the cost theory.[67] Dietzel too apparently grew up in this conception. Later, to be sure, he learned the theory of marginal utility, and took over from it, among other things, the recognition that the value of producers' goods is also an element of the height of costs and of course, an element that is in no way given but is first itself to be explained on the basis of marginal utility. However, he professed this recognition more with his lips than he actually took it over in flesh and blood. It is scarcely a mere accident that in his first polemical treatise, the influence of the *value* of producers' goods on the height of costs was passed over in silence in the overwhelmingly most numerous passages, and merely the quantity of labor and the like presented as determining value. In answer to my explicit question, Dietzel to be sure, in his second treatise, has now conceded the decisive role of the value of the cost goods, an admission that is incompatible with regarding costs as an already given magnitude. However, inwardly he has hardly entirely freed himself from that accustomed conception and gladly falls back into it, and especially, I believe, on the basis of it the

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[66]"Die klassische Werttheorie und die Theorie vom Grenznutzen," in these yearbooks, new series, vol. 21, pp. 514f.

[67]See above, pp. 25f. [330f.].

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impression has remained with him–as a real *peccatum originis*–that in the relationship between marginal utility and costs, costs must be the more solid, more ultimate element.

VII.
The Relationship Between the Value of Producers' Goods and the Value of Products

As already often noted, facts are not really in dispute between Dietzel and me. Indeed, we both equally teach what are matters of fact in the law of costs. Rather the dispute turns on the course of the causal connection: where in the relationship between costs and marginal utility to seek the cause and where the effect? With this question stands another in such a close relationship that it is almost only a different form of the same question. Namely, the question, which causal relationship exists between the value of [357] producers' goods (which is identical with the height of costs) and the value of their products (in which, according to our theory, the influence of marginal utility is initially reflected)?

Concerning this subject, which he treated less explicitly in his first polemical treatise, Dietzel now brings in reply to the second question of my "Zwischenwort" a series of positive statements which are extraordinarily characteristic for his conception. To begin with, he polemically turns against the assumption ("Wert- und Preistheorie," p. 693) that in the reciprocal relationship between the value of producers' goods and that of products the position of cause must be assigned to one definite element and the position of consequence to the other. Rather both reciprocally cause one another. Each is the cause of the other.

> No producers' good has economic value whose products (consumers' goods) would be worthless–objects (forces or materials) useless and present in superabundance. Thus the value of the product appears as the cause of the value of the producers' good. No product (consumers' good) has economic value whose producers' good (or whose producers' goods) would be valueless–objects (forces or materials) useless and present in superabundance. Thus the value of the producers' good appears as the cause of the value of the product.

And, indeed, this relationship of reciprocal causation allegedly exists everywhere, not merely in the case of goods subject to competition and reproducible at will, but also in the case of goods that are scarce or monopolized. The producers' good "Johannisberg" vineyards too, for example, derives its value from the value of the product "Johannisberg" wine. No less, however, does the product "Johannisberg" allegedly derive its value from the producers' good "Johannisberg" vineyards. Actually, the law of the *formation of value* is allegedly the same for all categories of goods. The difference between goods subject to competition and goods that are monopolized allegedly comes into play only in the question of the *measurement of value*.

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First, from the content of these comments, I take with pleasure the knowledge that Dietzel assumes an identical course of the causation of value for goods reproducible at will and for goods that are scarce, and acknowledges a uniform law of the formation of value for both categories of goods. This is entirely our view too. However, the question is indeed allowed of why Dietzel makes such a different application of the identical facts. If the causal relationship between the value of cost goods and of products is professedly identical for both categories of goods, how does Dietzel come to describe costs as the ultimate cause and ultimate regulator of the value of products in the case of goods reproducible at will, but not also in the case of goods that are scarce? That he has not done this in the case of the latter is indeed very understandable, for the facts of economic life here do not allow even an appearance of this kind to come up. If, however, costs notoriously do not exercise a determining power over the value of goods that are scarce, and Dietzel himself explicitly concedes that in the case of goods reproducible at will, too, no [358] other causal relationship exists between the value of cost goods and their products than in the case of scarce goods, would he then not logically have also had to refrain from ascribing to costs an ultimate regulating influence on the value of products in the case of goods subject to competition?

Dietzel to be sure seeks to help himself by means of a subtle distinction between the formation of value and the measurement of value. The causes of the law of value formation are the same for both groups. The measure or the height of value, however, is determined for them by different causes. In the case of goods that are scarce, by means of subjective perceptions of utility; in the case of goods subject to competition, by means of costs.

Isn't it, however, a dubious theory which calls upon other causes for the measure of a phenomenon than the ones to which the phenomenon owes its existence? There is indeed no causation of a phenomenon in the abstract, but the same cause or the same complex of cooperating partial causes[68] which bring a phenomenon into existence at all always bring it into existence also with a definite strength corresponding to the efficacy of the cause. There are not two separate causes for the fact that a phenomenon occurs in general and for the fact that it occurs *as it does*, no more than there are phenomena without strength or qualities. But just as a force or cause never operates in the abstract but always with a definite, concrete strength, the phenomenon caused also immediately receives at the same time its measure corresponding to the strength of the cause. The power of attraction of stone and earth causes (in conjunction with air resistance, which, indeed, could also very much hinder the occurrence of the phenomenon of falling, for example, in the case of a balloon or a feather!) not merely the fact that the stone falls in general but that it falls with a very definite velocity. The mixing together of moist and cold airflows never causes it to rain merely in the abstract, but it always causes a rain corresponding in strength to the set of facts that causes the rain. Coloring a material with a blue dye never causes merely that the colored material becomes

[68]Under which, factors that obstruct find their place as much as factors that facilitate.

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blue in the abstract, but that it necessarily becomes blue in a definite shade, and so on.

In exactly the same way, the causes to which value owes its origin at all never bring about a value without magnitude, but also always a value of definite strength or height. Utility and scarcity, which, indeed, according to Dietzel too are the causes of the existence of value, are always effective in definite degree. And to that degree it is also already determined that their product, value, comes into existence with a definite height. One may not be content with saying that Johannisberg wine has value because it is good tasting and scarce, but it is obvious that it also owes the degree [359] of its value to the degree to which the causes of its existence are present and operate. Its value is higher because the Johannisberg is very good tasting and very scarce, and without question it would be lower if the Johannisberg were, with the same good taste, less scarce or, with the same scarcity, were less good tasting. If Dietzel now concedes that the causes of the formation of value in the case of goods reproducible at will are exactly the same as those in the case of the scarce good Johannisberg, then, on the basis of what has been said, it is astonishing in the highest degree when he nevertheless introduces heterogeneous bases of explanation for the measure of the value of the two, which measure rests on the same causes!

However, his statements that have just been outlined contain things that are still much more astonishing. Namely, concerning the causal relationship existing between the value of producers' goods and that of their products, Dietzel teaches in substance that both reciprocally determine each other—which in a certain sense to be explained later is not incorrect—then, however, also that *each is the cause of the other*. According to Dietzel, the value of the product is the cause of the value of the producers' good and the value of the producers' good in turn is the cause of the value of the product.

If it is meant literally, I consider this proposition to be a mortal sin against all scientific logic. Blatant circularity in explanation is elevated to nothing short of a principle of explanation. We inquire, for example, into the causes of the value of the good "corks." What is Dietzel's answer to us? Corks have value because the cork wood from which they are made has value. Now, however, the value of cork wood is by far not an obvious ultimate fact. Therefore, we must ask further: And why does the cork wood have value? To that question Dietzel answers: because the corks which are made from it have a value! Will anyone regard that as a real explanation of the value of both goods? Or will anyone want to agree to the proposition that one and the same phenomenon can at the same time both precede and follow another—precede as its cause, and follow as its effect?[69]

[69]For the attentive reader, I need hardly observe that one must indeed distinguish between a reciprocal causation that allegedly takes place literally between two definite concrete phenomena and one which occurs only between two types of phenomena. The latter form of "reciprocal causation"—which strictly speaking to be sure cannot be so named—is entirely conceivable; the former, never. For example, acorn and oak can very well reciprocally cause one another in the sense that an oak tree comes from an acorn and an acorn in turn comes from it. Let it be noted, however, a *different* acorn than the first.

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[360] Thus, it is obvious that the causal relationship between the value of products and their producers' goods cannot be that which Dietzel states with the formula of mutual causation. However, where does the error lie which leads Dietzel to his logically impossible result?

That can be discovered very quickly, if we consider the arguments that Dietzel gives for his above claim.

> No product (consumers' good) has economic value whose producers' good (or whose producers' goods) would be valueless–objects (forces or materials) useless and present in superabundance. Thus the value of the producers' good appears as the cause of the value of the product.

What would Dietzel say to the following conclusion: "No summer occurs that was not preceded by a spring; thus spring appears as the cause of summer"? This conclusion is obviously premature: the premise that there is no summer without a preceding spring justifies only the pronouncement that both stand in some necessary causal relationship, but by absolutely no means that precisely the preceding phenomenon, spring, must be the cause of summer. Rather it can just as well be the case that the two inseparably connected phenomena are the common consequence of a third cause.

Now precisely this is the case with the value of products and producers' goods. The effective cause of the value of the products is not the value of the producers' good, but the technical fact standing behind this, namely, that the producers' good is not present in superabundance (to which Dietzel alludes with the addendum "objects useless and present in superabundance"). This fact–in connection with the further fact, which is by no means to be overlooked, that a certain want for the products concerned is present–causes the phenomenon for both goods, product and means of production, that the satisfaction of some set of wants depends on them, that they acquire value. One may not say, the product has value because the means of production have value, but only: the product has value on the same factual basis on which the means of production have value. Moreover, beyond this the further fact proves true that the transmission of value to the means of production from the facts that ultimately cause value takes place only through the value of the products. It cannot reach the former if it has not first reached the latter. The position of the two in the causal connection is not one of parity. Rather the value of the product constitutes an indispensable causal link in the emergence of the value of the means of production.

Or poverty and drunkenness can reciprocally cause each other in the sense that, for example, someone takes to drink because due to his poverty more noble gratifications were not accessible to him, and in return remains poor because the inebriety impairs his economic ability. Of course, however, here the poverty caused by the inebriety is the poverty of a different period, therefore, in conclusion, a different concrete phenomenon than the poverty which caused the inebriety. Dietzel's claim to the contrary would find its replica in the claim that an oak is the cause of the same acorn from which it grew!

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That this is the true course of causation can be simply and decisively shown by means of a practical test. Such a test shows, namely, that products can indeed retain their value even though the means of production lose it. However, it is not possible that the means of production retain their value [361] when their products have lost it. Let us imagine for a moment that people forgot how to make iron from iron ore. Without doubt the ore would thereby be degraded into a useless and valueless substance. However, would the value of the existing iron implements previously produced from iron ore disappear with it? Far from it! They would probably experience a considerable increase in their value.

Now let us reverse the assumption. Let us imagine for a moment that we would forget the use of all iron implements, which therewith would no longer be useful to us. It is obvious that in the same moment not merely all iron implements but also all ores from which one can produce iron would lose their value. Or a different example. No practical man will doubt the fact that, for example, by means of forced purchases of bricks, a rise in the price of bricks can be caused and thereby, as a further consequence, a rise in the price of the shares of brickworks. However, every practical man would laugh at anyone who, the other way around, would regard the forced purchase of shares in brickworks to be an effective means of driving up the price of bricks. And yet these means would have to be effective, if in reality, as Dietzel maintains, the value of brickworks were the cause of the value of bricks, just as much on a par as the value of bricks is the cause of the value of brickworks!

I think these examples, which could easily be multiplied, sufficiently show that the new Dietzelian theory of the parity of mutual causation of the value of the means of production and products contradicts not only logic but also all factual experience. And there will indeed be only very few readers who would be inclined to repeat after Dietzel the proposition that the value of the Johannisberg vineyards is the cause of the fact that the Johannisberg wine has a value. Dietzel, incidentally, has also widely separated himself by means of this claim from the classical theory, which he undertakes to defend. For preicsely the classical economists taught with the greatest emphasis the proposition that "corn is not high because a rent is paid" (that is, because the producers' good use of land has a value) but "a rent is paid because corn is high."[70]

VIII.
An Analogy

In itself it is a thankless task to argue about subtleties. It becomes doubly thankless when the subtle discussion must split up into many heterogeneous details: now about Robinson Crusoe's scale of values; now about the different meanings of the [362] word cost; now about the differences between practical

[70]Ricardo, *Principles of Political Economy*, chap. 2.

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valuations and the theoretical explanations of these valuations; now about the relationship between the formation of value and the measurement of value; now about the true course of the causal connection within a group of phenomena standing in a most highly complicated association; and so forth.

For my part, I would gladly have avoided both the subtleties and the splitting up. However, it did not lie within my discretion to avoid them. I had to follow my esteemed opponent where he led me. All the more do I have the sincere wish, at least at the end, to return the subject from splitting up to unity and from abstract subtlety to graphic clarity. I want to try to do this by means of an analogy.

A locomotive pulls a number of cars, let us say four cars. What is the cause of the movement of the first of these cars, and what is the cause of the magnitude of its speed? I believe every reader will answer without hesitation: the cause is the locomotive and its speed. The car moves because the locomotive moves, and it moves rapidly or slowly when and because the locomotive moves rapidly or slowly. And why does the second car move? Directly, because the the first car, with which it is coupled, pulls it; indirectly, because the locomotive pulls it. And the third and the last car move as well, directly, because in each case the next preceding car pulls it; indirectly, because the locomotive pulls it. I think that is clear and simple.

Now, however, somebody comes and tells us that nevertheless the matter actually behaves differently. Namely, if the second car were to stop, the first car, with which, indeed, it is firmly coupled, could not move from the place. Only when and because the second car moves, therefore, can the first car move and, to be sure, also not faster than the former. Consequently, the true cause of the movement and speed of the first car is to be sought in the movement and speed of the second car. In the same manner, the second car finds the cause and the measure of its speed in the movement of the third car. The third, in the movement of the last car. And the last car? For this one, to be sure, it must be conceded that it in its turn is set in motion by the locomotive.

What will we reply to this somebody? I think we will very curtly refer him to logic and the facts. To logic: for if it is conceded to us that the last car is set in motion by the locomotive, and if it is further conceded that it is brought into connection with the locomotive and its power to induce motion only through the cars stretched out in front of it, then it is indeed clear as day that the car coming after cannot pull the car coming before, but that the opposite course of causation is the actual one. To the facts: he should, indeed, make the test. If he uncouples the last car, the other [363] cars will continue moving nonetheless. However, if he uncouples the locomotive, all will immediately stop.

Now, I believe that in this analogy I have given a completely accurate representation of the views of the marginal-value theorists on the one hand and of Dietzel's on the other. The locomotive symbolizes wants, that is to say, marginal utility. The first car symbolizes the final product ready for consumption. The second, its producers' or cost goods. The ones following, the producers' or cost goods lying further back. The coupling, the fact of being reproducible

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at will. The movement, the value. The speed, the size of the value. *We* have the locomotive marginal utility put everything in motion, the first and the last cars; and, to be sure, the last always by means of the first. Concerning the movement of the third car, for example, we say that the locomotive pulls it through the intermediary of the first and second cars. And this conception Dietzel calls an unnatural, artificial one, a superfluous *jeu d'esprit spirituel,* a "terrible detour"!

He himself in contrast means to represent the natural way of conceiving the matter, when he has the value of the product governed by the value of the cost goods; these in turn, governed by the value of their cost goods, and so on; but the value of the final cost goods, governed by wants or marginal utility. In terms of the analogy: when he has the first car moved by the second; the second, by the third; the third, by the last car; but the last car moved by the locomotive! And to this, moreover, is now added the further claim that the cars mutually move one another–that is, not merely that the fourth car moves the third, but also that the the third car moves the fourth–and now, to be sure with special emphasis, the still further claim that the "ultimate" regulator of the entire movement of value is not the locomotive marginal utility, but the last car–the costs!

We can carry the analogy with utility still further, however. Undeniably, the weight of the cars attached behind, even the last of them, for example, has a causal influence on the speed and movement of the locomotive itself. If the weight is great, the speed of the locomotive–and with it that of the cars–will be slow. If the weight is excessively great, no movement at all will be able to occur. Thus, we have to note a relevant factor with respect to the *cars* which really does causally influence the speed of the whole train–of the locomotive and of every car. However, does this fact give us a right to state that the *speed* of the last car is a causal factor in the speed of the locomotive and of the cars in front? That the locomotive travels quickly or slowly, because the last car travels quickly or slowly? Obviously not! We must not confuse the *weight* of the car with its speed. The weight is a true causal factor. However, even as such it by no means operates as the sole, ultimate regulator of the speed, but only as *one* factor alongside the at least equally important factor "power of the locomotive." [364] But the *speed* of the last car is not at all cause, but effect.

Now what in the illustration is the weight of the last car in distinction to its speed, are in the economic world the technical or factual conditions of the cost goods in distinction to their value. If the supply of producers' goods is so large that in the existing degree of production technique a large quantity of products can be obtained from them, then, in the face of a given state of wants, the marginal utility and with it the value of the first and of all following stages in the process of production will turn out to be relatively small. If the supply in relationship to wants is superabundant, then the marginal utility will stand at zero and no value whatever will appear. But this set of circumstances–perfectly analogously–suffices to justify naming as cause of value only relevant *factual conditions* pertaining to production and the means

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of production, and, to be sure, never as sole cause or as self-sufficient ultimate regulator of value, but always only as partial cause of value, alongside of the state of wants. The *value* of the cost goods, on the other hand, is, in the whole situation, as far as we have surveyed it up to now, not at all cause but effect.

However, let us finally go a step further. Our railroad train of locomotive and four cars does not move by itself. Rather, its last car is coupled to another railroad train traveling in the opposite direction. And thus it is moved backward by the locomotive of the latter train attached at the opposite end. Now what is the causal relationship of the movement and speed of the four cars of our first train? Now, indeed, the previously "first" car moves because "the second" pulls it. This one, because the "third" pulls it. And the third car, because the "last" one pulls it. However, it is again just as clear that the last car by no means ultimately or by its own power determines the movement of the preceding cars, but rather that, acting merely as a mediate cause, it transmits the movement imparted to it by the locomotive of the second train that is coupled to it.

Here we have the full symbolization of the case, so frequent in practice, in which the "law of costs" really applies—of course, applies only in the sense that we attach to it, and not in Dietzel's sense.

Namely, we have the image of the case in which a cost good serves not merely in the production of a single definite kind of product, but possesses multiple employments and derives its marginal utility and value from one of these other employments. Then, as we marginal-value theorists have expressly shown and explained, the value of each of the types of "production-related" products, for example, iron rails, iron nails, iron pots, iron weapons, etc., is no longer determined independently, by the marginal utility which the type of product concerned [365] would have if one did not allow for its being able to be reproduced at will from a common cost good. Rather the marginal utility of the least valuable of the related products, the "marginal product," sets its stamp upon all members of the production community, on the cost goods as on the final products ready for consumption, and, to be sure, on the last through the intermediary of the first.

The locomotive of the second connected train—the marginal utility of the marginal product—in completely normal fashion puts in motion the first car of this train. The first car, the second. The second car, the third; and so forth, until movement comes to the car which mediates the connection of the two trains coupled together in opposite position, to the last car of the first train, to the common cost good. From here on, the movement is backward in its course. It is passed on through the last car to the next-to-last car; through the next-to-last car to the third-from-last car, and so on, to the locomotive itself—the marginal utility of the production-related end product—which likewise must conform in its movement and speed to the locomotive of the other train, which leads. What leads and moves here is always a locomotive, always a marginal utility. And the much-discussed last car, costs, can pull or move something only when it in fact is not the last car, but is in the middle between two trains,

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which it serves to connect. Make it in fact the last car, disconnect the coupling, eliminate the multisided employment of the cost good, and in the same moment its role in leading is at an end—in the analogy and in reality!

Here lies what is overlooked by Dietzel and all of his predecessors in the cost theory. They see only one part of the phenomenon—that the half of the train moving backward is pulled by its "last" car—and in premature generalization they ascribe to costs the power derived in truth from the other half of the train, as though that power belonged to the costs themselves. Dietzel's predecessors here deserve no other reproach than that they simply make no allowance for a certain fact they did not see. Dietzel's error, however, is a qualified one. For Dietzel already knows and occasionally even explicitly acknowledges that "costs," that is, the value-sum of the cost goods, are themselves governed by the marginal utility of the marginal product. In order to be able nevertheless to maintain his thesis of the ultimate value-governing power of costs, he must then more than merely overlook facts. He must contradict acknowledged facts and his own statements. Or else, in order at least not to openly contradict them, he must have recourse to dialectical sleight-of-hand and tortured, artificial constructions.

These are the symbol, as it were, of the whole of Dietzel's doctrine. We encounter the same spirit by turns in different forms. Now, when Robinson Crusoe in his value scale bases his judgment of value *in concreto*, to be sure, on the marginal utility of the cost goods, but [366] *in abstracto* again gets around it. Now, when Dietzel, in his description of price formation has not merely the different persons coming to the market but also one and the same person momentarily employ opposite principles of valuation.[71] Now, when different causes and laws are called upon for the "formation of value" and the "measurement of value." Now, when—last but not least—in the same breath, the value of products is explained as a cause of the value of cost goods, and the value of the cost goods in turn, as the cause of the value of the products.

Precisely this last pronouncement is significant in the highest degree. Not without good reason, in my "Zwischenwort" I had invited Dietzel to explain himself more clearly concerning the causal relationship between cost value and product value—which, indeed, is a touchstone for the whole conception of the subject of disagreement. And I confess that I was very eager for Dietzel's answer. Would he explain the value of the cost goods on principle as the causally prior member? Then he would have been in contradiction with the proposition already admitted by him, that the value of the cost goods themselves is determined by means of their marginal utility. Or would he explain

[71] "Wert- und Preistheorie," pp. 696 ff. "Only the subjective valuation of the sellers rests directly on the costs of production; that of the buyers, on the other hand, on utility" . . . "Once the good to be exchanged has been brought to market, the utility valuation takes the place of the cost valuation *for the duration of the market transaction* (even for the sellers)" . . . "With rising and falling prices the utility valuation of the sellers rises and falls." Compare, above, pp. 37 f. [343 f.].

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the value of the products as causally prior? Then he would have to retract his proposition of the "ultimateness" of costs and with it his whole polemic against us. Well, Dietzel has managed to retract nothing, neither the governing of costs by means of marginal utility nor the ultimateness of costs. However, in order to have to retract nothing, he has had to make no less a fabrication than that of two trees each is the taller, of two runners each is the faster, of two hours each is the earlier, and of two causally connected magnitudes each can be the cause.

Dietzel once admitted with commendable impartiality that all the numerous attacks that had been directed against the theory of marginal utility until now, by Neumann, by Scharling, by Schäffle, among others, remained ineffective.[72] I hope to have awakened the impression that in his attempt to lead the rival cost theory to victory against the theory of marginal utility, Dietzel too has been just as unsuccessful. Will perhaps a future advocate of the cost theory be more successful?

[367] I dare to prophesy the opposite with certainty. The times are past in which one could naively teach the cost theory without getting involved in more precise explanations concerning in particular the origin of the value of the cost goods itself and the laws determining its magnitude. Whoever begins, however, really to explain, instead of merely assert, will find all of the logical and factual rocks in his way on which Dietzel's explanation has run aground. And may he employ the art of navigation and steering as much as he likes, he will find the way out from the labyrinth of rocks under no other sign than we marginal-value theorists have sought and found it. The simple truth remains, indeed, that it is ultimately a locomotive which pulls the last car and not a last car that pulls the locomotive!

[72]"Werttheorie," pp. 572, 578.

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Frédéric Bastiat's Views on the Nature of Money

Mark Thornton

What is money? This is a question for the ages. Humanity has risen into complex society and experienced tremendous economic development and high cultural achievement through the use of money. It has foundered or even been destroyed when money has been undermined. Ignorance of the nature of money should therefore be the central economic issue for society.

Frédéric Bastiat was a French businessman who lived during the first half of the nineteenth century (1801-1850). In the last few years of his life he was elected to the national assembly and began a prolific career as a writer on topics of economics, public policy, and political issues of the day.

His highly effective writing style includes the use of humor, ridicule, dialogue, irony, exaggeration and, most important, logical deduction and the process of elimination. He is like a mystery sleuth in search of economic truth and this style has made him the undisputed champion in economic polemics. He continues to earn high praise from journalists, economists, and most important, from educated readers more than 150 years after his death.[1]

In contrast to the universal respect and admiration for his literary skills, Bastiat has not been admired as an economic theorist. His efforts at economic theory have been roundly criticized and characterized as the efforts of an amateur or even a crank. We can list the eminent economist Joseph Schumpeter and Nobel Laureate F.A. Hayek, two outstanding economists, among the critics of Bastiat as an economic theorist.

I have re-examined Bastiat's contributions to economic theory and have found the charges against him to be unsubstantiated. In terms of economic theory, Bastiat is widely knowledgeable, keenly discerning, highly competent, and very creative. Furthermore, I have concluded that the central criticisms of

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[1]Even the president of the Federal Reserve Bank of Dallas, Dr. Robert McTeer, has heaped high praise on Bastiat's writings.

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his detractors are unjustified, because they are based on an interpretation of Bastiat's theories that is at odds with the large body of Bastiat's views on economics. These critics place Bastiat in a camp that believes that people do not benefit from trade (zero sum theory of exchange) and that the value of a good actually resides within the good itself (intrinsic value). It is simply preposterous to believe that Bastiat held such beliefs and to interpret his theory in this manner. Bastiat was arguably the most consistent economist of all time, an achievement that was nurtured by many years of serious study before embarking on his political and publishing career a few years before his death. There may be something wrong in Bastiat's theoretical framework, but these critics have not identified it (Thornton 2001, pp. 387-98).

Had Bastiat lived to see the publication of his theoretical treatise, he would no doubt have defended and clarified his views, possibly modifying those views or their presentation. Bastiat certainly loved intellectual debate, and few people of his day or ours would relish going to battle with him.

Bastiat has received criticism in the area of monetary theory. Hayek wrote in the introduction to an edition of Bastiat's *Selected Essays on Political Economy* that Bastiat should not be blamed for his failure to address the important problems of monetary economics because Bastiat lived during the heyday of the international gold standard. With so many other problems in his day, why should Bastiat search for a solution where no problem existed?

> The attentive reader will notice that, while Bastiat grapples with so many economic panaceas which are familiar to us, one of the main dangers of our time does not appear in his pages. Though he has to deal with various queer proposals for using credit which were current in his time, straight inflation through a government deficit seemed in his age not a major danger. An increase of expenditure means for him necessarily and immediately an increase in taxation. The reason is that, as among all people who have gone through a major inflation within living memory, a continuous depreciation of money was not a thing with which people would have put up with in his day. So if the reader should be inclined to feel superior to the rather simple fallacies that Bastiat often finds it necessary to refute, he should remember that in some other respects his compatriots of more than a hundred years ago were considerably wiser than our generation. (Hayek 1964, pp. xi-xii)

Many writers have appealed to Bastiat's writings on other subjects to analyze monetary problems and to offer monetary solutions. For example, appeal has been made to his views of the nature of government or trade to illuminate monetary issues. Others have tried to reconstruct what Bastiat would believe about money and some of these attempts can be judged quite successful.

I have searched through Bastiat's writings for something–anything–on monetary economics and have finally found an essay, "Maudit Argent" (1849)[2]. A translation of the essay appeared in English, in a long lost volume

[2]Translation is "What is Money?" It was translated and published into English by David Wells in 1877. All page references here are to this translation unless otherwise noted.

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of Bastiat's essays, by the great American economist David Wells in 1877. We are now able to clearly see if Bastiat has any economic lessons for us in the area of monetary economics.

Modern economists would probably scoff at the notion of using the dialogue method to present economic theory, but Galileo used it to describe the nature of the universe, and Plato certainly used it to good effect. Bastiat used dialogue to address the question, "What is money?" It is a dialogue between an economist who represents Bastiat's views and who begins the dialogue by shouting "Hateful money! hateful money!" (p. 174) after leaving a Committee of Finance meeting where a project of paper money has been discussed. His discussant is an acquaintance and an educated layman willing to learn how a failure to understand monetary theory "is to be found at the root of all economical errors" (p. 177).

Bastiat begins his detailed analysis of the nature of money with a stunning statement when he calls "drafts on the Bank of Exchange" a "deceitful substitute" for money. This clearly implies that banknotes and deposit accounts are fraudulent when they do not represent commodity money in the same way warehouse receipts represent the titles to nonmonetary commodities. Bastiat therefore begins his dialogue by labeling fractional reserve banking practices as a fraud on the general public.

Bastiat goes on to explain that the confusion of money and riches or wealth is the "cause of errors and calamities without number" (p. 176). Money is genuinely beneficial–indeed, it plays a critical role as the medium of exchange–but people confuse money with wealth. This is not a problem for the deluded individual who readily ignores this mistaken belief every time he gets hungry or thirsty and converts money into goods. However, when this mistaken belief becomes acceptable public policy all manner of destruction can be unleashed:

> Because, when a man, instead of acting for himself, decides for others, personal interest, that ever watchful and sensible sentinel, is no longer present to cry out, "Stop! the responsibility is misplaced." It is Peter who is deceived, and John suffers; the false system of the legislator necessarily becomes the rule of action of whole populations. (p. 179)

When government concludes that money is wealth and enacts policies to draw money away from other nations, it accepts the doctrine that an individual and a nation can only prosper at the expense of others. In order to increase wealth, people must be prevented from spending their money on imports even if they are hungry, and must also be compelled to export their goods in order to increase the amount of money in society. An expensive system of customhouses will be necessary to prohibit imports and an expensive system of export subsidies will be necessary to encourage exports and all of this will require a large tax to be laid on the people. If other governments adopt the same view, then you must raise armies and navies to establish colonies and conquests that will then serve as customers for your goods and sources of

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money. If they in turn raise armies to contest your colonies and conquests, the process—"universal war" (p. 187)—becomes self-defeating and very expensive.

> And, tell me, are not these custom-house officers, soldiers, and vessels, these oppressive taxes, this perpetual struggle towards an impossible result, this permanent state of open or secret war with the whole world, are they not the logical and inevitable consequence of the legislators having adopted an idea, which you admit is acted upon by no man who is his own master, that "wealth is money; and to increase the amount of money is to increase wealth?" (p. 186)

Of course, universal war is not the only result of the idea that increasing the supply of money can make us richer. Along with protectionism, colonialism (imperialism), heavy taxes, and the hatred of capital comes "the last and worst, paper money" (p. 188).

> When legislators, after having ruined men by war and taxes, persevere in their idea, they say to themselves, "If the people suffer, it is because there is not money enough. We must make some." And as it is not easy to multiply the precious metals, especially when the pretended resources of prohibition have been exhausted, they add, "We will make fictitious money, nothing is more easy, and then every citizen will have his pocket-book full of it, and they will all be rich." (p. 188)

Bastiat then goes on to show that the notion of money as the source of wealth is incorrect, that trading goods and services is mutually beneficial, and that trade is merely facilitated by the use of commodity money as the medium of exchange. He then reinforces this point by noting that any rare metal can serve as money and that any quantity will be sufficient to serve as money. The policymaker need not increase the money supply at all:

> Money serves only to facilitate the transmission of these useful things from one to another, which may be done equally well with an ounce of rare metal like gold, with a pound of more abundant material as silver, or with a hundredweight of still more abundant metal, as copper. According to that, if a country like the United States had at its disposal as much again of all these useful things, its people would be twice as rich, although the quantity of money remained the same; but it would not be the same if there were double the money, for in that case the amount of useful things would not increase. (p. 191)

Bastiat is adamant that any increase in the supply of money does not benefit society and does not increase satisfaction. You simply do not make the citizenry better off by forcing them to give up useful things in return for newly created money. What is good for the individual (more money) is not good for the nation as a whole, and Bastiat invents an ingenious game to explain inflation and debasement. He then explains that money represents value that the holder has provided to someone else in society either by goods or labor, and the holder can take money and exchange it with others for goods or labor of

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a similar value. Bastiat laments: "It is impossible for society to render more services than it receives, and yet a belief to the contrary is the chimera which is being pursued by means of the multiplication of coins, of paper money, etc." (pp. 200-01). You cannot solve the problems of society, nor raise the standard of living simply by increasing the supply of money.

Bastiat's companion asks, why not give an increase in the supply of money a try, even if it will not work. At least it will not cause any harm and will give people some hope that social problems can be addressed. Beginning with a fictitious construction similar to what is now referred to as the helicopter model, Bastiat replies "after the issue of paper money and its depreciation, the equilibrium of values should instantly and simultaneously take place in all things and in every part of the country" then "the best thing we could do would be to look at one another and laugh" (p. 205).

But this is not how it works in the real world. When you force people to take false money in return for real goods and services, the alteration of money creates real changes in the world, and, rather than providing a mechanism for solving real-world problems or even of just providing hope to the poor and the downtrodden, inflation actually creates real problems and injustices for the least advantaged members of society.

> I must inform you, that this depreciation, which, with paper, might go on till it came to nothing, is effected by continually making dupes; and of these, poor people, simple persons, workmen and countrymen are the chief. (p. 206)

During inflation the ability to calculate is blurred and this is especially so among the average working class people who are unable to identify the reason for their impoverishment. Bastiat notes that a "day's pay of a country laborer will remain for a long time at a dollar while the salable price of all the articles of consumption around him will be rising" (p. 211). He goes on to note that, because the rise in prices cannot be "instantaneous and equal for all things" (p. 212), inflation also contributes to the chief problem of those who wish to use money to solve social problems, the inequality of wealth in society.[3]

> Sharp men, brokers, and men of business, will not suffer by it; for it is their trade to watch the fluctuations of prices, to observe the cause, and even to speculate upon it. But little tradesmen, countrymen, and workmen will bear the whole weight of it. (p. 212)[4]

There are many more problems with inflation, but the discussants grow weary. Bastiat tries to summarize his conclusions by noting that "these questions

[3]Bastiat addresses the problems of credit in other articles and therefore does not consider the problems of inflation induced credit expansion and the business cycle.

[4]Wells then provides an extensive footnote that documents a real-world case in which inflation contributes to the inequality of wealth.

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are of the highest importance; for peace or war, order or anarchy, the union or antagonism of citizens, are at the root of the answer to them" (p. 217), and goes on to question, how can all civilized nations avoid the study of such critical information. Bastiat's replies that the state fills men's minds with prejudices and sentiments "favorable to the spirit of anarchy, war, and hatred" (p. 218), because the state takes us at an early age and:

> It puts a bandage over our eyes, takes us gently from the midst of the social circle which surrounds us, to plunge us, with our susceptible faculties, our impressionable hearts, into the midst of Roman society. . . . How can you expect them to take the slightest interest in the mechanism of our social order? (pp. 218-19)

Bastiat ends the dialogue with his recommendation for reform:

> The most urgent necessity is, not that the State should teach, but that it should *allow* education. All monopolies are detestable, but the worst of all is the monopoly of education. (p. 220)

Clearly, rumors of Bastiat's lack of interest in monetary theory have not only been exaggerated, they are patently untrue. Indeed, Bastiat places the role of money at the center of the economy and portrays ignorance of its nature as one of its greatest dangers. Not only does he explain the nature of money, but he also very cogently explains the inevitable results of a failure to understand that nature.

Bastiat's analysis is so advanced that it is prophetic. Not only does he explain the inevitable consequences of mercantilist monetary policy, but he also goes on to explain the critical weaknesses of modern equilibrium approaches to monetary theory and monetarism. As one views the world and sees global economic chaos, growing class conflict, widely divergent economic opportunity, and perpetual war, Bastiat provides a clear and concise guide to its cause. Bastiat's solution no doubt rests in the true understanding of the nature of money by the citizens, the abolition of fiat money and central banks, and a return to commodity money such as gold and silver coins.

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What is Money?

Frédéric Bastiat

HATEFUL money! hateful money !" cried *F*—, the economist, despairingly, as he came from the Committee of Finance, where a project of paper money had just been discussed.

"What's the matter?" said I. "What is the meaning of this sudden dislike to the most extolled of all the divinities of this world?"

F. Hateful money! hateful money!

B. You alarm me. I hear peace, liberty, and life cried down, and Brutus went so far even as to say, "Virtue! thou art but a name!" But what can have happened?

F. Hateful money! hateful money!

B. Come, come, exercise a little philosophy. What has happened to you? Has Croesus been affecting you? Has Jones been playing you false? or has Smith been libeling you in the papers?

F. I have nothing to do with Croesus; my character, by its insignificance, is safe from any slanders of Smith; and as to Jones—

B. Ah! Now I have it. How could I be so blind? You, too, are the inventor of a social reorganization–of the *F*—*system*, in fact. Your society is to be more perfect than that of Sparta, and, therefore, all money is to be rigidly banished from it. And the thing that troubles you is, how to persuade your people to throw away the contents of their purses. What would you have? This is the rock on which all reorganizers split. There is not one but would do wonders, if he could contrive to overcome all resisting influences, and if all mankind would consent to become soft wax in his fingers; but men are resolved not to be soft wax; they listen, applaud, or reject and–go on as before.

F. Thank heaven I am still free from this fashionable mania. Instead of inventing social laws, I am studying those which it has pleased Providence to invent, and I am delighted to find them admirable in their progressive development. This is why I exclaim, "Hateful money! hateful money!"

Frédéric Bastiat, *Essays on Political Economy*, David A. Wells, trans. and notes (New York: G.P. Putnam's Sons, 1877). French version–http://bastiat.org/fr/maudit_argent.html.

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B. You are a disciple of Proudhon, then? Well, there is a very simple way for you to satisfy yourself. Throw your purse into the river, only reserving a small draft on the Bank of Exchange.

F. If I cry out against money, is it likely I should tolerate its deceitful substitute?

B. Then I have only one more guess to make. You are a new Diogenes, and are going to victimize me with a discourse on the contempt of riches.

F. Heaven preserve me from that! For riches, don't you see, are not a little more or a little less money. They are bread for the hungry, clothes for the naked, fuel to warm you, oil to lengthen the day, a career open to your son, a certain portion for your daughter, a day of rest after fatigue, a cordial for the faint, a little assistance slipped into the hand of a poor man, a shelter from the storm, a diversion for a brain worn by thought, the incomparable pleasure of making those happy who are dear to us. Riches are instruction, independence, dignity, confidence, charity; they are progress and civilization. Riches are the admirable civilizing result of two admirable agents, more civilizing even than riches themselves—labor and exchange.

B. Well! now you seem to be singing the praises of riches, when, a moment ago, you were loading them with imprecations!

F. Why, don't you see that it was only the whim of an economist? I cry out against money, just because everybody confounds it, as you did just now, with riches, and that this confusion is the cause of errors and calamities without number. I cry out against it because its function in society is not understood, and very difficult to explain. I cry out against it because it jumbles all ideas, causes the means to be taken for the end, the obstacle for the cause, the alpha for the omega; because its presence in the world, though in itself beneficial, has, nevertheless, introduced a fatal notion, a perversion of principles, a contradictory theory, which, in a multitude of forms, has impoverished mankind and deluged the earth with blood. I cry out against it, because I feel that I am incapable of contending against the error to which it has given birth, otherwise than by a long and fastidious dissertation to which no one would listen. Oh! if I could only find a patient and benevolent listener!

B. Well, it shall not be said that for want of a victim you remain in the state of irritation in which you now are. I am listening; speak, lecture, do not restrain yourself in any way.

F. You promise to take an interest?

B. I promise to have patience.

F. That is not much.

B. It is all that I can give. Begin, and explain to me, at first, how a mistake on the subject of money, if mistake there be, is to be found at the root of all economical errors?

F. Well, now, is it possible that you can conscientiously assure me that you have never happened to confound wealth with money?

B. I don't know; but, after all, what would be the consequence of such a confusion?

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F. Nothing very important. An error in your brain, which would have no influence over your actions; for you see that, with respect to labor and exchange, although there are as many opinions as there are heads, we all act in the same way.

B. Just as we walk upon the same principle, although we are not agreed upon the theory of equilibrium and gravitation.

F. Precisely. A person who argued himself into the opinion that during the night our heads and feet changed places, might write very fine books upon the subject, but still he would walk about like everybody else.

B. So I think. Nevertheless, he would soon suffer the penalty of being too much of a logician.

F. In the same way, a man would die of hunger, who having decided that money is real wealth, should carry out the idea to the end. That is the reason that this theory is false, for there is no true theory but such as results from facts themselves, as manifested at all times, and in all places.

B. I can understand, that practically, and under the influence of personal interest, the injurious effects of the erroneous action would tend to correct an error. But if that of which you speak has so little influence, why does it disturb you so much?

F. Because, when a man, instead of acting for himself, decides for others, personal interest, that ever watchful and sensible sentinel, is no longer present to cry out, "Stop! the responsibility is misplaced." It is Peter who is deceived, and John suffers; the false system of the legislator necessarily becomes the rule of action of whole populations. And observe the difference. When you have money, and are very hungry, whatever your theory about money may be, what do you do?

B. I go to a baker's and buy some bread.

F. You do not hesitate about using your money?

B. The only use of money is to buy what one wants.

F. And if the baker should happen to be thirsty, what does he do?

B. He goes to the wine merchant's, and buys wine with the money I have given him.

F. What! is he not afraid he shall ruin himself?

B. The real ruin would be to go without eating or drinking.

F. And everybody in the world, if he is free, acts in the same manner?

B. Without a doubt. Would you have them die of hunger for the sake of laying by pence?

F. So far from it, that I consider they act wisely, and I only wish that the theory was nothing but the faithful image of this universal practice. But, suppose now, that you were the legislator, the absolute king of a vast empire, where there were no gold mines.

B. No unpleasant fiction.

F. Suppose, again, that you were perfectly convinced of this,–that wealth consists solely and exclusively of money, to what conclusion would you come?

B. I should conclude that there was no other means for me to enrich my people, or for them to enrich themselves, but to draw away the money from other nations.

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F. That is to say, to impoverish them. The first conclusion, then, to which you would arrive would be this,–a nation can only gain when another loses.

B. This axiom has the authority of Bacon and Montaigne.*

F. It is not the less sorrowful for that, for it implies–that progress is impossible. Two nations, no more than two men, cannot prosper side by side.

B. It would seem that such is the result of this principle.

F. And as all men are ambitious to enrich themselves, it follows that all are desirous, according to a law of Providence, of ruining their fellow-creatures.

B. This is not Christianity, but it is political economy.

F. Such a doctrine is detestable. But, to continue, I have made you an absolute king. You must not be satisfied with reasoning, you must act. There is no limit to your power. How would you treat this doctrine–wealth is money?

B. It would be my endeavor to increase, incessantly, among my people the quantity of money.

F. But there are no mines in your kingdom. How would you set about it? What would you do?

B. I should do nothing: I should merely forbid, on pain of death, that a single dollar should leave the country.

F. And if your people should happen to be hungry as well as rich?

B. Never mind. In the system we are discussing, to allow them to export dollars, would be to allow them to impoverish themselves.

F. So that, by your own confession, you would force them to act upon a principle equally opposite to that upon which you would yourself act under similar circumstances. Why so?

B. Just because my own hunger touches me, and the hunger of a nation does not touch legislators.

F. Well, I can tell you that your plan would fail, and that no superintendence would be sufficiently vigilant, when the people were hungry, to prevent the dollars from going out and the grain from coming in.

B. If so, this plan, whether erroneous or not, would effect nothing; it would do neither good nor harm, and therefore requires no further consideration.

F. You forget that you are a legislator. A legislator must not be disheartened at trifles, when he is making experiments on others. The first measure not having succeeded, you ought to take some other means of attaining your end.

B. What end?

F. You must have a bad memory. Why, that of increasing, in the midst of your people, the quantity of money, which is presumed to be true wealth.

B. Ah! to be sure; I beg your pardon. But then you see, as they say of music, a little is enough; and this may be said, I think, with still more reason, of political economy. I must consider. But really I don't know how to contrive—

*During the sixteenth and seventeenth centuries this theory was almost universally accepted in Europe.

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F. Ponder it well. First, I would have you observe that your first plan solved the problem only negatively. To prevent the dollars from going out of the country is the way to prevent the wealth from diminishing, but it is not the way to increase

B. Ah! now I am beginning to see . . . the grain which is allowed to come in . . . a bright idea strikes me . . . the contrivance is ingenious, the means infallible; I am coming to it now.

F. Now, I, in turn, must ask you—to what?

B. Why, to a means of increasing the quantity of money.

F. How would you set about it, if you please?

B. Is it not evident that if the heap of money is to be constantly increasing, the first condition is that none must be taken from it?

F. Certainly.

B. And the second, that additions must constantly be made to it?

F. To be sure.

B. Then the problem will be solved, either negatively or positively; if on the one hand I prevent the foreigner from taking from it, and on the other I oblige him to add to it.

F. Better and better.

B. And for this there must be two simple laws made, in which money will not even be mentioned. By the one, my subjects will be forbidden to buy anything abroad; and by the other, they will be required to sell a great deal.

F. A well-advised plan.

B. Is it new? I must take out a patent for the invention.

F. You need do no such thing; you have been forestalled. But you must take care of one thing.

B. What is that?

F. I have made you an absolute king. I understand that you are going to prevent your subjects from buying foreign productions. It will be enough if you prevent them from entering the country. Thirty or forty thousand custom-house officers will do the business.

B. It would be rather expensive. But what does that signify? The money they receive will not go out of the country.

F. True; and in this system it is the grand point. But to insure a sale abroad, how would you proceed?

B. I should encourage it by prizes, obtained by means of some good taxes laid upon my people.

F. In this case, the exporters, constrained by competition among themselves, would lower their prices in proportion, and it would be like making a present to the foreigner of the prizes or of the taxes.

B. Still, the money would not go out of the country.

F. Of course. That is understood. But if your system is beneficial, the governments of other countries will adopt it. They will make similar plans to yours; they will have their custom-house officers, and reject your productions; so that with them, as with you, the heap of money may not be diminished.

B. I shall have an army and force their barriers.

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F. They will have an army and force yours.

B. I shall arm vessels, make conquests, acquire colonies, and create consumers for my people, who will be obliged to eat our corn and drink our wine.

F. The other governments will do the same. They will dispute your conquests, your colonies, and your consumers; then on all sides there will be war, and all will be uproar.

B. I shall raise my taxes, and increase my custom-house officers, my army, and my navy.

F. The others will do the same.

B. I shall redouble my exertions.

F. The others will redouble theirs. In the meantime, we have no proof that you would succeed in selling to a great extent.

B. It is but too true. It would be well if the commercial efforts would neutralize each other.

F. And the military efforts also. And, tell me, are not these custom-house officers, soldiers, and vessels, these oppressive taxes, this perpetual struggle towards an impossible result, this permanent state of open or secret war with the whole world, are they not the logical and inevitable consequence of the legislators having adopted an idea, which you admit is acted upon by no man who is his own master, that "wealth is money; and to increase the amount of money is to increase wealth?"

B. I grant it. Either the axiom is true, and then the legislator ought to act as I have described, although universal war should be the consequence; or it is false; and in this case men, in destroying each other, only ruin themselves.

F. And, remember, that before you became a king, this same axiom had led you by a logical process to the following maxims:—That which one gains, another loses. The profit of one is the loss of the other:—which maxims imply an unavoidable antagonism amongst all men.

B. It is only too certain. Whether I am a philosopher or a legislator, whether I reason or act upon the principle that money is wealth, I always arrive at one conclusion, or one result:—universal war. It is well that you pointed out the consequences before beginning a discussion upon it; otherwise, I should never have had the courage to follow you to the end of your economical dissertation, for, to tell you the truth, it is not much to my taste.

F. What do you mean? I was just thinking of it when you heard me grumbling against money! I was lamenting that my countrymen have not the courage to study what it is so important that they should know.

B. And yet the consequences are frightful.

F. The consequences! As yet I have only mentioned one. I might have told you of others still more fatal.

B. You make my hair stand on end! What other evils can have been caused to mankind by this confusion between money and wealth?

F. It would take me a long time to enumerate them. This doctrine is one of a very numerous family. The eldest, whose acquaintance we have just made, is called the *prohibitive system*; the next, the *colonial system*; the third, *hatred of capital*; the last and worst, *paper money*.

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B. What! does paper money proceed from the same error?

F. Yes, directly. When legislators, after having ruined men by war and taxes, persevere in their idea, they say to themselves, "If the people suffer, it is because there is not money enough. We must make some." And as it is not easy to multiply the precious metals, especially when the pretended resources of prohibition have been exhausted, they add, " We will make fictitious money, nothing is more easy, and then every citizen will have his pocket-book full of it, and they will all be rich."

B. In fact, this proceeding is more expeditious than the other, and then it does not lead to foreign war.

F. No, but it leads to civil disaster.

B. You are a grumbler. Make haste and dive to the bottom of the question. I am quite impatient, for the first time, to know if money (or its sign) is wealth.

F. You will grant that men do not satisfy any of their wants immediately with coined dollars, or dollar bills. If they are hungry, they want bread; if naked, clothing; if they are ill, they must have remedies; if they are cold, they want shelter and fuel; if they would learn, they must have books; if they would travel, they must have conveyances–and so on. The riches of a country consist in the abundance and proper distribution of all these things. Hence you may perceive and rejoice at the falseness of this gloomy maxim of Bacon's, "*What one people gains, another necessarily loses.*" a maxim expressed in a still more discouraging manner by Montaigne, in these words: "*The profit of one is the loss of another.*" When Shem, Ham, and Japhet divided amongst themselves the vast solitudes of this earth, they surely might each of them build, drain, sow, reap, and obtain improved lodging, food and clothing, and better instruction, perfect and enrich themselves–in short, increase their enjoyments, without causing a necessary diminution in the corresponding enjoyments of their brothers. It is the same with two nations.

B. There is no doubt that two nations, the same as two men, unconnected with each other, may, by working more, and working better, prosper at the same time, without injuring each other. It is not this which is denied by the axioms of Montaigne and Bacon. They only mean to say, that in the transactions which take place between two nations or two men, if one gains, the other must lose. And this is self-evident, as exchange adds nothing by itself to the mass of those useful things of which you were speaking; for if, after the exchange, one of the parties is found to have gained something, the other will, of course, be found to have lost something.

F. You have formed a very incomplete, nay, a false idea of exchange. If Shem is located upon a plain which is fertile in corn, Japhet upon a slope adapted for growing the vine, Ham upon a rich pasturage–the distinction of their occupations, far from hurting any of them, might cause all three to prosper more. It must be so, in fact, for the distribution of labor, introduced by exchange, will have the effect of increasing the mass of corn, wine, and meat which is produced, and which is to be shared. How can it be otherwise, if you allow liberty in these transactions? From the moment that any one of the brothers

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should perceive that labor in company, as it were, was a permanent loss, compared to solitary labor, he would cease to exchange. Exchange brings with it its claim to our gratitude. The fact of its being accomplished proves that it is a good thing.

B. But Bacon's axiom is true in the case of gold and silver. If we admit that at a certain moment there exists in the world a given quantity, it is perfectly clear that one purse cannot be filled without another being emptied.

F. And if gold is considered to be riches, the natural conclusion is, that displacements of fortune take place among men, but no general progress. It is just what I said when I began. If, on the contrary, you look upon an abundance of useful things, fit for satisfying our wants and our tastes, as true riches, you will see that simultaneous prosperity is possible. Money serves only to facilitate the transmission of these useful things from one to another, which may be done equally well with an ounce of rare metal like gold, with a pound of more abundant material as silver, or with a hundredweight of still more abundant metal, as copper. According to that, if a country like the United States had at its disposal as much again of all these useful things, its people would be twice as rich, although the quantity of money remained the same; but it would not be the same if there were double the money, for in that case the amount of useful things would not increase.

B. The question to be decided is, whether the presence of a greater number of dollars has not the effect, precisely, of augmenting the sum of useful things?

F. What connection can there be between these two terms? Food, clothing, houses, fuel, all come from nature and from labor, from more or less skillful labor exerted upon a more or less liberal nature.

B. You are forgetting one great force, which is–exchange. If you acknowledge that this is a force, as you have admitted that dollars facilitate it, you must also allow that they have an indirect power of production.

F. But I have added, that a small quantity of rare metal facilitates transactions as much as a large quantity of abundant metal; whence it follows, that a people is not enriched by being *forced* to give up useful things for the sake of having more money.

B. Thus, it is your opinion that the treasures discovered in California will not increase the wealth of the world?

F. I do not believe that, on the whole, they will add much to the enjoyments, to the real satisfactions of mankind. If the Californian gold merely replaces in the world that which has been lost and destroyed, it may have its use. If it increases the amount of money, it will depreciate it. The gold diggers will be richer than they would have been without it. But those in whose possession the gold is at the moment of its depreciation, will obtain a smaller gratification for the same amount. I cannot look upon this as an increase, but as a displacement of true riches, as I have defined them.

B. All that is very plausible. But you will not easily convince me that I am not richer (all other things being equal) if I have two dollars, than if I had only one.

F. I do not deny it.

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B. And what is true of me is true of my neighbor, and of the neighbor of my neighbor, and so on, from one to another, all over the country. Therefore, if every citizen of the United States has more dollars, the United States must be more rich.

F. And here you fall into the common mistake of concluding that what affects one affects all, and thus confusing the individual with the general interest.

B. Why, what can be more conclusive? What is true of one, must be so of all. What are all, but a collection of individuals? You might as well tell me that every American could suddenly grow an inch taller, without the average height of all the Americans being increased.

F. Your reasoning is apparently sound, I grant you, and that is why the allusion it conceals is so common. However, let us examine it a little. Ten persons were at play. For greater ease, they had adopted the plan of each taking ten counters, and against these they each placed a hundred dollars under a candlestick, so that each counter corresponded to ten dollars. After the game the winnings were adjusted, and the players drew from the candlestick as many ten dollars as would represent the number of counters. Seeing this, one of them, a great arithmetician perhaps, but an indifferent reasoner, said: "Gentlemen, experience invariably teaches me that, at the end of the game, I find myself a gainer in proportion to the number of my counters. Have you not observed the same with regard to yourselves? Thus, what is true of me must be true of each of you, and *what is true of each must be true of all.* We should, therefore, all of us gain more, at the end of the game, if we all had more counters. Now, nothing can be easier; we have only to distribute twice the number of counters." This was done; but when the game was finished, and they came to adjust the winnings, it was found that the one thousand under the candlestick had not been miraculously multiplied, according to the general expectation. They had to be divided accordingly, and the only result obtained (chimerical enough) was this;—every one had, it is true, his double number of counters, but every counter, instead of correspondiug to *ten* dollars, only represented *five.* Thus it was clearly shown that what is true of each is not always true of all.

B. I see; you are supposing a general increase of counters, without a corresponding increase of the sum placed under the candlestick.

F. And you are supposing a general increase of dollars, without a corresponding increase of things, the exchange of which is facilitated by these dollars.

B. Do you compare the dollars to counters?

F. In any other point of view, certainly not; but in the case you place before me, and which I have to argue against, I do. Remark one thing. In order that there be a general increase of dollars in a country, this country must have mines, or its commerce must be such as to give useful things in exchange for money. Apart from these two circumstances, a universal increase is impossible, the dollars only changing hands; and in this case, although it may be very true that each one, taken individually, is richer in proportion to the number

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of dollars that he has, we cannot draw the inference which you drew just now, because a dollar more in one purse implies necessarily a dollar less in some other. It is the same as with your comparison of the middle height. If each of us grew only at the expense of others, it would be very true of each, taken individually, that he would be a taller man if he had the chance, but this would never be true of the whole taken collectively.

B. Be it so: but, in the two suppositions that you have made, the increase is real, and you must allow that I am right.

F. To a certain point, gold and silver have a value. To obtain this value, men consent to give other useful things which have a value also. When, therefore, there are mines in a country, if that country obtains from them sufficient gold to purchase a useful thing from abroad—a locomotive, for instance—it enriches itself with all the enjoyments which a locomotive can procure, exactly as if the machine had been made at home. The question is, whether it spends more efforts in the former proceeding than in the latter? For if it did not export this gold, it would depreciate, and something worse would happen than what did sometimes happen in California and in Australia, for there, at least, the precious metals are used to buy useful things made elsewhere. Nevertheless, there is still a danger that they may starve on heaps of gold; as it would be if the law prohibited the exportation of gold. As to the second supposition—that of the gold which we obtain by trade: it is an advantage, or the reverse, according as the country stands more or less in need of it, compared to its wants of the useful things which must be given up in order to obtain it. It is not for the law to judge of this, but for those who are concerned in it; for if the law should start upon this principle, that gold is preferable to useful things, whatever may be their value, and if it should act effectually in this sense, it would tend to put every country adopting the law in the curious position of having a great deal of cash to spend, and nothing to buy. It is the very same system which is represented by Midas, who turned everything he touched into gold, and was in consequence in danger of dying of starvation.

B. The gold which is *im*ported implies that a *useful thing* is *ex*ported, and in this respect there is a satisfaction withdrawn from the country. But is there not a corresponding benefit? And will not this gold be the source of a number of new satisfactions, by circulating from hand to hand, and inciting to labor and industry, until at length it leaves the country in its turn, and causes the importation of some useful thing.

F. Now you have come to the heart of the question. Is it true that a dollar is the principle which causes the production of all the objects whose exchange it facilitates? It is very clear that a piece of coined gold or silver stamped as a dollar is only worth a dollar; but we are led to believe that this value has a particular character: that it is not consumed like other things, or that it is exhausted very gradually; that it renews itself, as it were, in each transaction; and that, finally this particular dollar has been worth a dollar, as many times as it has accomplished transactions—that it is of itself worth all the things for which it has been successively exchanged; and this is believed,

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because it is supposed that without this dollar these things would never have been produced. It is said the shoemaker would have sold fewer shoes, consequently he would have bought less of the butcher; the butcher would not have gone so often to the grocer, the grocer to the doctor, the doctor to the lawyer, and so on.

B. No one can dispute that.

F. This is the time, then, to analyze the true function of money, independently of mines and importations. You have a dollar. What does it imply in your hands? It is, as it were, the witness and proof that you have, at some time or other, performed some labor, which, instead of turning to your advantage, you have bestowed upon society as represented by the person of your client (employer or debtor). This coin testifies that you have performed a *service* for society, and, moreover, it shows the value of it. It bears witness, besides, that you have not yet obtained from society a *real* equivalent service, to which you have a right. To place you in a condition to exercise this right, at the time and in the manner you please, society, as represented by your client, has given you an acknowledgment, a title, a privilege from the republic, a counter, a title to a dollar's worth of property in fact, which only differs from executive titles by bearing its value in itself; and if you are able to read with your mind's eye the inscriptions stamped upon it you will distinctly decipher these words:—"*Pay the bearer a service equivalent to what he has rendered to society, the value received being shown, proved, and measured by that which is represented by me.*" Now, you give up your dollar to me. Either my title to it is gratuitous, or it is a claim. If you give it to me as payment for a service, the following is the result:—your account with society for real satisfactions is regulated, balanced, and closed. You had rendered it a service for a dollar, you now restore the dollar for a service; as far as you are concerned you are clear. As for me, I am just in the position in which you were just now. It is I who am now in advance to society for the service which I have just rendered it in your person. I have become its creditor for the value of the labor which I have performed for you, and which I might devote to myself. It is into my hands then, that the title of this credit—the proof of this social debt—ought to pass. You cannot say that I am any richer; if I am entitled to receive, it is because I have given. Still less can you say that society is a dollar richer, because one of its members has a dollar more, and another has one less. For if you let me have this dollar gratis, it is certain that I shall be so much the richer, but you will be so much the poorer for it; and the social fortune, taken in a mass, will have undergone no change, because as I have already said, this fortune consists in real services, in effective satisfactions, in useful things. You were a creditor to society; you made me a substitute to your rights, and it signifies little to society, which owes a service, whether it pays the debt to you or to me. This is discharged as soon as the bearer of the claim is paid.

B. But if we all had a great number of dollars we should obtain from society many services. Would not that be very desirable?

F. You forget that in the process which I have described, and which is a picture of the reality, we only obtain services from society because we have bestowed

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some upon it. Whoever speaks of a *service*, speaks, at the same time of a service *received* and *returned*, for these two terms imply each other, so that the one must always be balanced by the other. It is impossible for society to render more services than it receives, and yet a belief to the contrary is the chimera which is being pursued by means of the multiplication of coins, of paper money, etc.

B. All that appears very reasonable in theory, but in practice I cannot help thinking, when I see how things go, that if, by some fortunate circumstance, the number of dollars could be multiplied in such a way that each of us could see his little property doubled, we should all be more at our ease; we should all make more purchases, and trade would receive a powerful stimulus.

F. More purchases! and what should we buy? Doubtless, useful articles—things likely to procure for us substantial gratification—such as provisions, stuffs, houses, books, pictures. You should begin, then, by proving that all these things create themselves; you must suppose the Mint melting ingots of gold which have fallen from the moon; or that the printing presses be put in action at the Treasury Department; for you cannot reasonably think that if the quantity of corn, cloth, ships, hats, and shoes remains the same, the share of each of us can be greater, because we each go to market with a greater amount of real or fictitious money. Remember the players. In the social order the useful things are what the workers place under the candlestick, and the dollars which circulate from hand to hand are the counters. If you multiply the dollars without multiplying the useful things, the only result will be that more dollars will be required for each exchange, just as the players required more counters for each deposit. You have the proof of this in what passes for gold, silver, and copper. Why does the same exchange require more copper than silver, more silver than gold? Is it not because these metals are distributed in the world in different proportions? What reason have you to suppose that if gold were suddenly to become as abundant as silver, it would not require as much of one as of the other to buy a house?

B. You may be right, but I should prefer your being wrong. In the midst of the sufferings which surround us, so distressing in themselves, and so dangerous in their consequences, I have found some consolation in thinking that there was an easy method of making all the members of the community happy.

F. Even if gold and silver were true riches, it would be no easy matter to increase the amount of them in a country where there are no mines.

B. No, but it is easy to substitute something else. I agree with you that gold and silver can do but little service, except as a mere means of exchange. It is the same with paper money, bank-notes, etc. Then, if we had all of us plenty of the latter, which it is so easy to create, we might all buy a great deal, and should want for nothing.* Your cruel theory dissipates hopes, illusions, if you will, whose principle is assuredly very philanthropic.

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*Stated in the abstract, these views, which M. Bastiat causes his imaginary advocate of the issue and use of irredeemable paper money to express, seem so absurd, that one reading involuntarily asks himself: "Do people in actual life, holding important positions of trust and influence really ever thus talk and believe?" To this the answer, unfortunately, must be in the affirmative. The legislative history of all countries is full of examples of

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F. Yes, like all other barren dreams formed to promote universal felicity. The extreme facility of the means which you recommend is quite sufficient to expose its hollowness. Do you believe that if it were merely needful to print bank-notes in order to satisfy all our wants, our tastes, and desires, that mankind would have been contented to go on till now without having recourse to this plan? I agree with you that the discovery is tempting. It would immediately banish from the world, not only plunder, in its diversified and deplorable forms, but even labor itself, except in the National Printing Bureau. But we have yet to learn how greenbacks are to purchase houses, which no one would have built; corn, which no one would have raised; stuffs, which no one would have taken the trouble to weave.

B. One thing strikes me in your argument. You say yourself that if there is no gain, at any rate there is no loss in multiplying the instrument of exchange, as is seen by the instance of the players, who were quits by a very mild deception. Why, then, refuse the philosopher's stone, which would teach us the secret of changing base material into gold, or what is the same thing, converting paper into money? Are you so blindly wedded to logic, that you would refuse to try an experiment where there can be no risk? If you are mistaken, you are depriving the nation, as your numerous adversaries believe, of an immense advantage. If the error is on their side, no harm can result, as you yourself say, beyond the failure of a hope. The measure, excellent in their opinion, in yours is merely negative. Let it be tried, then, since the worst which can happen is not the realization of an evil, but the non-realization of a benefit.

F. In the first place, the failure of a hope is a very great misfortune to any people. It is also very undesirable that the government should announce the abolition of several taxes on the faith of a resource which must infallibly fail. Nevertheless, your remark would deserve some consideration, if, after the issue of paper money and its depreciation, the equilibrium of values should instantly and simultaneously take place in all things and in every part of the country. The measure would tend, as in my example of the players, to a uni-

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such utterances; and that of the United States, especially, abounds with them. Pelatiah Webster, in his history of "Continental Money," tells us that when the subject of increased taxation for the support of the war was under consideration by the Continental Congress, a member arose and indignantly asked, "if he was expected to help tax people, when they could go to the printing-office and get money by the cart load."

During the debates in the Senate of the United States in 1875, the Hon. O.P. Morton, a senator from Indiana, a man whom no small number of people have thought worthy of being called to the Executive chair of the nation, authoritatively laid down this proposition: "*That an abundance of money*" (meaning irredeemable paper money) "*does produce enterprise, prosperity, and progress; that when money was plentiful interest would be lower," just as when horses and hogs are abundant, horses and hogs are cheap.* The trouble here was that this senator had not sufficiently comprehended the a, b, c's of finance, to appreciate the difference between capital and currency; and in the simplicity of his heart imagined that it was all the same whether we had pictures of horses, hogs, and money, or real horses, hogs, and money, which represent, and are only produced by labor.—*Robinson Crusoe's Money*, p. 110.

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versal mystification, in respect to which the best thing we could do would be to look at one another and laugh. But this is not in the course of events. The experiment has been made, and every time a government–be it King or Congress–has altered the money . . .

B. Who says anything about altering the money?

F. Why, to force people to take in payment scraps of paper which have been officially baptized *dollars*, or to force them to receive, as weighing an ounce, a piece of silver which weighs only half an ounce, but which has been officially named a *dollar*, is the same thing, if not worse; and all the reasoning which can be made in favor of paper money has been made in favor of legal false-coined money. Certainly, looking at it, as you did just now, and as you appear to be doing still, if it is believed that to multiply the instruments of exchange is to multiply the exchanges themselves as well as the things exchanged, it might very reasonably be thought that the most simple means was to mechanically divide the coined dollar, and to cause the law to give to the half the name and value of the whole. Well, in both cases, depreciation is inevitable. I think I have told you the cause. I must also inform you, that this depreciation, which, with paper, might go on till it came to nothing, is effected by continually making dupes; and of these, poor people, simple persons, workmen and countrymen are the chief.

B. I see; but stop a little. This dose of Economy is rather too strong for once.

F. Be it so. We are agreed, then, upon this point–that wealth is the mass of useful things which we produce by labor; or, still better, the result of all the efforts which we make for the satisfaction of our wants and tastes. These useful things are exchanged for each other, according to the convenience of those to whom they belong. There are two forms in these transactions; one is called barter: in this case a service is rendered for the sake of receiving an equivalent service immediately. In this form transactions would be exceedingly limited. In order that they may be multiplied, and accomplished independently of time and space amongst persons unknown to each other, and by infinite fractions, an intermediate agent has been necessary–this is money. It gives occasion for exchange, which is nothing else but a complicated bargain. This is what has to be remarked and understood. Exchange decomposes itself into two bargains, into two departments, sale and purchase–the reunion of which is needed to complete it. You *sell* a service, and receive a dollar—then, with this dollar you *buy* a service. Then only is the bargain complete; it is not till then that your effort has been followed by a real satisfaction. Evidently you only work to satisfy the wants of others, that others may work to satisfy yours. So long as you have only the dollar which has been given you for your work, you are only entitled to claim the work of another person. When you have done so, the economical evolution will be accomplished as far as you are concerned, since you will then only have obtained, by a real satisfaction, the true reward for your trouble. The idea of a bargain implies a service rendered, and a service received. Why should it not be the same with exchange, which is merely a bargain in two parts? And here there are two observations to be made. First–It is a very unimportant circumstance whether there be much or

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little money in the world. If there is much, much is required; if there is little, little is wanted, for each transaction: that is all. The second observation is this:—Because it is seen that money always reappears in every exchange, it has come to be regarded as the *sign* and the *measure* of the things exchanged.

B. Will you still deny that money is the *sign* of the useful things of which you speak?

F. A half-eagle is no more the sign of a barrel of flour, than a barrel of flour is the sign of a half-eagle.

B. What harm is there in looking at money as the sign of wealth?

F. The inconvenience is this—it leads to the idea that we have only to increase the sign, in order to increase the things signified; and we are in danger of adopting all the false measures which you took when I made you an absolute king. We should go still further. Just as in money we see the sign of wealth, we see also in paper money the sign of money; and thence conclude that there is a very easy and simple method of procuring for everybody the pleasures of fortune.

B. But you will not go so far as to dispute that money is the *measure* of values?

F. Yes, certainly, I do go as far as that, for that is precisely where the illusion lies. It has become customary to refer the value of everything to that of money. It is said, this is *worth* five, ten, or twenty dollars, as we say this *weighs* five, ten, or twenty grains; this *measures* five, ten, or twenty yards; this ground *contains* five, ten, or twenty acres; and hence it has been concluded that money is the *measure* of *values.*

B. Well, it appears as if it was so.

F. Yes, it appears so, and it is this appearance I complain of, and not of the reality. A measure of length, size, surface, is a quantity agreed upon, and unchangeable. It is not so with the value of gold and silver. This varies as much as that of corn, wine, cloth, or labor, and from the same causes, for it has the same source and obeys the same laws. Gold is brought within our reach, just like iron, by the labor of miners, the advances of capitalists, and the combination of merchants and seamen. It costs more or less, according to the expense of its production, according to whether there is much or little in the market, and whether it is much or little in request; in a word, it undergoes the fluctuations of all other human productions. But one circumstance is singular, and gives rise to many mistakes. When the value of money varies, the variation is attributed by language to the other productions for which it is exchanged. Thus, let us suppose that all the circumstances relative to gold remain the same, and that the corn harvest has failed. The price of corn will rise. It will be said, "The barrel of flour, which was worth five dollars, is now worth eight;" and this will be correct, for it is the value of the flour which has varied, and language agrees with the fact. But let us reverse the supposition: let us suppose that all the circumstances relative to flour remain the same, and that half of all the gold in existence is swallowed up; this time it is the price of gold which will rise. It would seem that we ought to say, "This half-eagle, which *was worth* ten dollars, *is now worth* twenty." Now, do you know

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how this is expressed? Just as if it was the other objects of comparison which had fallen in price, it is said—"Flour, which *was worth* ten dollars, *is now only worth* five."

B. It all comes to the same thing in the end.

F. No doubt; but only think what disturbances, what cheatings are produced in exchanges, when the value of the medium varies, without our becoming aware of it by a change in the name. Old pieces are issued, or notes bearing the name of five dollars, and which will bear that name through every subsequent depreciation. The value will be reduced a quarter, a half, but they will still be called *pieces* or *notes of five dollars.* Clever persons will take care not to part with their goods unless for a larger number of notes—in other words, they will ask ten dollars for what they would formerly have sold for five; but simple persons will be taken in. Many years must pass before all the values will find their proper level. Under the influence of ignorance and *custom*, the day's pay of a country laborer will remain for a long time at a dollar while the salable price of all the articles of consumption around him will be rising. He will sink into destitution without being able to discover the cause. In short, since you wish me to finish, I must beg you, before we separate, to fix your whole attention upon this essential point:—When once false money (under whatever form it may take) is put into circulation, depreciation will ensue, and manifest itself by the universal rise of every thing which is capable of being sold. But this rise in prices is not instantaneous and equal for all things. Sharp men, brokers, and men of business, will not suffer by it; for it is their trade to watch the fluctuations of prices, to observe the cause, and even to speculate upon it. But little tradesmen, countrymen, and workmen will bear the whole weight of it. The rich man is not any the richer for it, but the poor man becomes poorer by it. Therefore, expedients of this kind have the effect of increasing the distance which separates wealth from poverty, of paralyzing the social tendencies which are incessantly bringing men to the same level, and it will require centuries for the suffering classes to regain the ground which they have lost in their advance towards *equality of condition.**

B. Good morning; I shall go and meditate upon the lecture you have been giving me.

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*Although to all who have investigated the subject the evidence is conclusive that an irredeemable fluctuating paper money is always made an agency for taxing with special severity all that class of consumers who live on fixed incomes, salaries, and wages, it has, nevertheless, always been a somewhat difficult matter to find illustrations of the fact so clear and simple as to carry conviction by presentation that it does thus act to the classes most interested. With a view of obtaining such an illustration, application was made some months since to an eminent American merchant (A.T. Stewart), whose large and varied experience abundantly qualified him to discuss the subject; and the result of the application may be thus stated:

Q. In buying in gold and selling in currency, what addition do you make to your selling price, in the way of insurance, that the currency received will be sufficient—plus profit, interest, etc.—to replace or buy back the gold represented by the original purchase?

A. We do but very little of that now; hardly enough to speak about.

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F. Have you finished your own dissertation? As for me, I have scarcely begun mine. I have not yet spoken of the popular *hatred* of capital, of gratuitous

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Q. But still you make insurance against currency flnctuations an item in your business to be regarded to some extent.

A. Why, yes, certainly; it won't do to overlook it entirely.

Q. Well, then, if you have no objections, please tell me what you do allow under existing circumstances?

A. I have certainly no objections. We buy closely for cash; sell largely for cash, or very short credit; and, within the comparatively narrow limits that currency has fluctuated for the last two or three years, add but little to our selling prices as insurance on that account, say one or two per cent for cash, or three months' credit; and for a longer credit–if we give it–something additional. During or immediately after the war, when the currency fluctuations were more extensive, frequent, and capricious, the case was very different. Then selling prices had to be watched very closely, and changed very frequently, sometimes daily. My present experience, therefore, is exceptional; and to get the information you want, you must look further. I think I can help you to do this. We buy regularly large quantities of a foreign product, let us suppose, for illustration, *cloths*, for the large manufacturers and dealers in ready-made clothing. We buy for gold, and we sell for gold, and do not allow the currency or its fluctuations to enter in any way into these transactions. But how is it with *my* customers? I allow them some credit; and the amount involved being often very large, I, of course, must know something of the way in which they manage their business. They transform the cloth purchased with gold into clothing, and then sell the clothing, in turn, to *their* customers, jobbers and retailers, all over the country, for currency, on a much longer average credit than they obtain from me for their raw material. As a matter of safety and necessity these wholesale dealers and manufacturers must add to their selling prices a sufficient percentage to make sure that the currency they are to receive at the end of three, six, or nine months will be sufficient to buy them as much gold as they have paid to me, or as much as will buy them another lot of cloth to meet the further demands of their business and their customers. How much they thus add I cannot definitely say. There is no regular rule. Every man doubtless adds all that competition will permit; and every circumstance likely to affect the prospective price of gold is carefully considered. Five per centage, in my opinion, on a credit of three months, would be the average minimum; and for a longer time, a larger percentage. If competition does not allow any insurance percentage to be added there is a liability to a loss of capital, which in the long run may be most disastrous, a circumstance that may explain the wreck of many firms, whose managers, on the old-fashioned basis of doing business, would have been successful. The jobbers and the retailers, to whom the wholesale dealers and manufacturers sell, are not so likely to take currency insurance into consideration in fixing their selling prices; but to whatever amount the cost price of their goods has been enhanced by the necessity of insurance against currency fluctuations, on that same amount they estimate and add for interest and profits; the total enhancement of prices falling ultimately on the consumer, who, of necessity, can rarely know the elements of the cost of the article he purchases.

Q. So Mr. Webster, then, in his remark, which has become almost a proverb, that "of all contrivances for cheating the laboring classes, none has been more effectual than that which deludes them with paper money," must have been thoroughly cognizant of the nature of such transactions?

A. Most undoubtedly; for such transactions are the inevitable consequence of using as a medium of exchange a variable, irredeemable currency.

The illustration above given, therefore, in the place of being imaginary, is based on the actual condition of business at the present time, January, 1876.–*Note from Robinson Crusoe's Money*, by David A. Wells.

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credit (loans without interest)—a most unfortunate notion, a deplorable mistake, which takes its rise from the same source.

B. What! does this frightful commotion of the populace against capitalists arise from money being confounded with wealth?

F. It is the result of different causes. Unfortunately, certain capitalists have arrogated to themselves monopolies and privileges which are quite sufficient to account for this feeling. But when the theorists of democracy have wished to justify it, to systematize it, to give it the appearance of a reasonable opinion, and to turn it against the very nature of capital, they have had recourse to that false political economy at whose root the same confusion is always to be found. They have said to the people:—"Take a dollar; put it under a glass; forget it for a year; then go and look at it, and you will be convinced that it has not produced ten cents, nor five cents, nor any fraction of a cent. Therefore, money produces no interest." Then, substituting for the word money, its pretended sign, *capital*, they have made it by their logic undergo this modification—"Then capital produces no interest." Then follows this series of consequences—"Therefore he who lends a capital ought to obtain nothing from it; therefore he who lends you a capital, if he gains something by it, is robbing you; therefore all capitalists are robbers; therefore wealth, which ought to serve gratuitously those who borrow it, belongs in reality to those to whom it does not belong; therefore there is no such thing as property, therefore everything belongs to everybody; therefore. . . ."

B. This is very serious; the more so, from the syllogism being so admirably formed. I should very much like to be enlightened on the subject. But, alas! I can no longer command my attention. There is such a confusion in my head of the words *coin, money, services, capital, interest*, that really I hardly know where I am. We will, if you please, resume the conversation another day.

F. In the meantime here is a little work entitled *Capital and Rent.* It may perhaps remove some of your doubts. Just look at it when you are in want of a little amusement.

B. To amuse me?

F. Who knows? One nail drives in another; one wearisome thing drives away another.

B. I have not yet made up my mind that your views upon money and political economy in general are correct. But, from your conversation, this is what I have gathered:—That these questions are of the highest importance; for peace or war, order or anarchy, the union or the antagonism of citizens, are at the root of the answer to them. How is it that in France and most other countries which regard themselves as highly civilized, a science which concerns us all so nearly, and the diffusion of which would have so decisive an influence upon the fate of mankind, is so little known? Is it that the State does not teach it sufficiently?

F. Not exactly. For, without knowing it, the State applies itself to loading everybody's brain with prejudices, and everybody's heart with sentiments favorable to the spirit of anarchy, war, and hatred; so that, when a doctrine of order, peace, and union presents itself, it is in vain that it has clearness and

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truth on its side,—it cannot gain admittance.

B. Decidedly you are a frightful grumbler. What interest can the State have in mystifying people's intellects in favor of revolutions, and civil and foreign wars? There must certainly be a great deal of exaggeration in what you say.

F. Consider. At the period when our intellectual faculties begin to develop themselves, at the age when impressions are liveliest, when habits of mind are formed with the greatest ease—when we might look at society and understand it—in a word, as soon as we are seven or eight years old, what does the State do? It puts a bandage over our eyes, takes us gently from the midst of the social circle which surrounds us, to plunge us, with our susceptible faculties, our impressible hearts, into the midst of Roman society. It keeps us there for ten years at least, long enough to make an ineffaceable impression on the brain. Now observe, that Roman society is directly opposed to what our society ought to be. There they lived upon war; here we ought to hate war; there they hated labor; here we ought to live upon labor. There the means of subsistence were founded upon slavery and plunder; here they should be drawn from free industry. Roman society was organized in consequence of its principle. It necessarily admired what made it prosper. There they considered as virtue what we look upon as vice. Its poets and historians had to exalt what we ought to despise. The very words *liberty, order, justice, people, honor, influence, etc.*, could not have the same signification at Rome, as they have, or ought to have, at Paris. How can you expect that all these youths who have been at university or conventual schools, with Livy and Quintus Curtius for their catechism, will not understand liberty like the Gracchi, virtue like Cato, patriotism like Caesar? How can you expect them not to be factious and warlike? How can you expect them to take the slightest interest in the mechanism of our social order? Do you think that their minds have been prepared to understand it? Do you not see that in order to do so they must get rid of their present impressions, and receive others entirely opposed to them?

B. What do you conclude from that?

F. I will tell you. The most urgent necessity is, not that the State should teach, but that it should *allow* education. All monopolies are detestable, but the worst of all is the monopoly of education.

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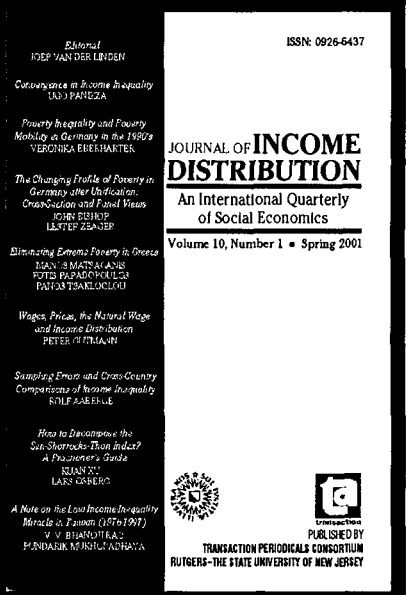
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